Economic Growth

Agriculture

A Study Team Report to the Task Force on Program Review

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to the Task Force
on Program Review

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FOREWORD

The Task Force on Program Review was created in September 1984 with two major objectives - better service to the public and improved management of government programs. Recognizing the desirability of involving the private sector in the work of program review, assistance from national labour, business and professional organizations was sought. The response was immediate and generous. Each of these national organizations selected one of their members to serve in an advisory capacity. These public spirited citizens served without remuneration. Thus was formed the Private Sector Advisory Committee which has been responsible for reviewing and examining all of the work of program review.

The specific program reviews have been carried out by mixed study teams composed of a balance of private sector and public sector specialists, including representatives from provincial and municipal governments. Each study team was responsible for the review of a "family" of programs and it is the reports of these study teams that are published in this series. These study team reports represent consensus, including that of the Private Sector Advisory Committee, but not necessarily unanimity among study team members, or members of the Private Sector Advisory Committee, in all respects.

The review is unique in Canadian history. Never before has there been such broad representation from outside government in such a wide-ranging examination of government programs. The release of the work of the mixed study teams is a public acknowledgement of their extraordinarily valuable contribution to this difficult task.

Study teams reviewed existing evaluations and other available analyses and consulted with many hundreds of people and organizations. The teams split into smaller groups and consulted with interested persons in the private sector. There were also discussions with program recipients, provincial and municipal governments at all levels, from officials to cabinet ministers. Twenty provincial officials including three deputy ministers were members of various study teams.

The observations and options presented in these reports were made by the study teams. Some are subjective. That was necessary and appropriate considering that the review phase of the process was designed to be completed in a little more than a year. Each study team was given three months to carry out its work and to report. The urgent need for better and more responsive government required a fresh analysis of broad scope within a reasonable time frame.

There were several distinct stages in the review process. Terms of reference were drawn up for each study team. Study team leaders and members were appointed with assistance from the Private Sector Advisory Committee and the two Task Force Advisors: Mr. Darcy McKeough and Dr. Peter Meyboom. Mr. McKeough, a business leader and former Ontario cabinet minister, provided private sector liaison while Dr. Meyboom, a senior Treasury Board official, was responsible for liaison with the public sector. The private sector members of the study teams served without remuneration save for a nominal per diem where labour representatives were involved.

After completing their work, the study teams discussed their reports with the Private Sector Advisory Committee. Subsequently, their findings were submitted to the Task Force led by the Deputy Prime Minister, the Honourable Erik Nielsen. The other members are the Honourable Michael Wilson, Minister of Finance, the Honourable John Crosbie, Minister of Justice, and the President of the Treasury Board, the Honourable Robert de Cotret.

The study team reports represent the first orderly step toward cabinet discussion. These reports outline options as seen by the respective study teams and present them in the form of recommendations to the Task Force for consideration. The reports of the study teams do not represent government policy nor are they decisions of the government. The reports provide the basis for discussion of the wide array of programs which exist throughout government. They provide government with a valuable tool in the decision-making process.

Taken together, these volumes illustrate the magnitude and character of the current array of government programs and present options either to change the nature of these programs or to improve their management. Some decisions were announced with the May budget speech, and some subsequently. As the Minister of Finance noted in the May

budget speech, the time horizon for implementation of some measures is the end of the decade. Cabinet will judge the pace and extent of such change.

These study team reports are being released in the hope that they will help Canadians understand better the complexity of the issues involved and some of the optional solutions. They are also released with sincere acknowledgement to all of those who have given so generously of their time and talent to make this review possible.

TERMS OF REFERENCE

There are 91 programs listed in Annex A directed in whole or in part to the agricultural sector. These programs in total involve 14,223 person-years, 16 departments and agencies, $1.5 billion in grants and contributions, and as well as significant federal revenue costs.

The study team will examine the appended list closely with a view to structuring its examination with respect to programs providing price stabilization, insurance, or subsidies, programs of research, finances, marketing boards, and programs of marketing and market development, and initial observations regarding agricultural food inspections. The team will also consult with those who are engaged in a review of policies requested by the Minister of Agriculture. (see "Linkage with Consultation Papers").

Based on an appropriately modified list of programs, the Ministerial Task Force on Program Review seeks the advice and conclusions of the team regarding a profile of government programs in this domain which is simpler, more understandable and more accessible to its clientele, and where decision making is decentralized as far as possible to those in direct contact with client groups. Included in this advice could be observations regarding:

Areas of duplication between the federal and provincial governments in the agricultural sector, and duplication among federal programs, and hence:

- Programs that might be eliminated.

- Programs that could be reduced in scope.

- Groups of programs that could be consolidated.

- Programs whose basic objective is sound but whose form should be changed.

- Possible improvements to federal-provincial communication and program coordination.

A summary overview of the legislation that would be required to implement any of these program changes.

By means of background information to its conclusions the study team is asked to obtain answers to three sets of questions or concerns regarding beneficiaries; efficiency and overlap; and gaps and omissions.

Beneficiaries

The geographical distribution of the beneficiaries of each major agricultural program on either side of "the farm gate".

The distribution of beneficiaries up to the farm gate and beyond farm gate, by size (with appropriate indicators or measures) and business characteristics (such as whether incorporated).

The purpose and benefits of the various programs of agricultural research, including the overall allocation of research effort across commodities or groups of beneficiaries.

The value to beneficiaries of measures other than cash transfers, such as supply management, loans and the possibility of contingent liabilities, and publicly provided infrastructure.

Efficiency and Overlap

Programs which are particularly troublesome to beneficiaries in terms of red tape, paper work, and delays.

Illustrative cases where individuals or groups of individuals have benefited from several agricultural programs, including those offered by provincial governments, and where:

The programs are complementary.

The programs involve substantial duplication or overlap.

Programs whose results could be achieved more efficiently through private sector organizations, or by government programs structured more along the lines of private insurance principles.

Cases where two different kinds of programs or activities effectively overlap, for example:

Subsidies and supply management.

Price stabilization and special income tax averaging.

Marketing boards and commodity exchanges (grains).

Gaps and Omissions

Direct spending or tax expenditure programs which should be taken into account in this review but are not in the list of programs in the Annex.

LINKAGE WITH CONSULTATION PAPERS

At the moment a consultation paper is being prepared on agriculture. Once published, this paper will serve to stimulate discussion and consultation between the private sector and responsible ministers on possible future policy options. Although the study team will undoubtedly want to examine and take note of this paper when it is available, the team's central task will be to advise the Ministerial Task Force along the lines set out above.

COMPOSITION OF STUDY TEAM

The study team shall be led by a senior private sector executive who will be appointed in consultation with the department most closely affected by this program assessment. The team Director will report to both the Public Sector Advisor and the Private Sector Liaison Advisor serving the Chairman of the Task Force. The Director will be supported by 3 seconded government officers and a matching number of private sector representatives nominated through the Private Sector Advisory Committee. The team, or its Director, shall meet with the Public Sector and Private Sector Liaison Advisors at their request.

WORK PROGRAM

In view of the multiplicity of programs that fall within the general category of agriculture, it will be desirable to assign specific tasks to sub-teams dealing with specific subjects. To this end, the study team will submit for consideration by the Ministerial Task Force a detailed workplan showing what sub-teams will be organized for that purpose.

The study team shall have access to any evaluations or evaluative tools departments have with respect to programs covered by this review.

REPORTING SCHEDULE

The study team is requested to report its initial findings to the Ministerial Task Force on February 15, 1985, with a final report within three months after initiation. In addition, the Task Force will receive brief progress reports on the work of this and other study teams at all regular meetings.

COMMUNICATION WITH DEPARTMENTS

Ministers of those departments directly affected by this review, will be advised which programs under their jurisdiction will be included.

AGC	14	CANADIAN AGRICULTURAL MARKETING DEVELOPMENT FUND (CAMDF)
AGC	15	ADVANCE PAYMENTS FOR CROPS ACT (APCA)
AGC	16	AGRICULTURAL PRODUCTS COOPERATIVE MARKETING ACT (APCMA)
AGC	17	FRUIT & VEG. STOR. CONSTR. FINAN. ASSIST. PROG. (F&VSCFAP)
AGC	18	AGRICULTURAL PRODUCTS MARKETING ACT (APMA)
AGC	22	APB
AGC	201	RESEARCH ON NATURAL RESOURCES
AGC	202	RESEARCH ON PRODUCTION DEVELOPMENT
AGC	203	RESEARCH & INFO. RELATED TO PROCESSING, DISTRIBUT. & RETAILING
AGC	204	CONTRACT RESEARCH
AGC	205	AGRIC. RES. IN UNIV. & OTHER SCIENTIFIC ORGAN. IN CANADA
AGC	206	COMMONWEALTH AGRICULTURAL BUREAUX
AGC	213	INSPECTION AND CONTROL OF FACILITIES AND FOOD PRODUCTS
AGC	214	MARKET MAINTENANCE
AGC	215	INSPECTION & PROTECTION OF CROPS, LVSTK & FARM INPUT SUPPLIES
AGC	216	RESEARCH AND ADVISORY SERVICES
AGC	219	MRKTING EFFECT. & ECONOMIC VIABILITY (M&E BR) AGR FOOD DEV.
AGC	220	MARKET DEVELOPMENT (MARKETING AND ECONOMICS BRANCH)
AGC	221	PRAIRIE GRAIN ADVANCE PAYMENTS ACT
AGC	222	SEED POTATO EXPORT PROMOTION PROGRAM (SPEPP)
AGC	223	ASB DESIGNATED COMMODITIES
AGC	224	ASB DESIGNATED COMMODITIES
AGC	225	ASB NAMED COMMODITIES
AGC	226	ASB (HOGS) NAMED COMMODITIES IN EXCESS OF MINIMUM
AGC	227	WGSA
AGC	228	FARM LOANS INTEREST REBATE
AGC	229	MIGRATORY WATERFOWL
AGC	230	CROP INSURANCE
AGC	236	AGRI-FOOD DEV. PLAN FOR SENB (1982-86)
AGC	237	MAGDALEN ISLANDS AGRICULTURAL DEVELOPMENT PLAN (1983-85)
AGC	238	AGRI-FOOD DEVEL. PLAN FOR THE LOWER ST. LAWRENCE-GASPE (83-88)

AGC	239	CAN/NFLD AGRIC. DEVEL. SUBSIDIARY AGREEMENT (1978-84) (GDA)
AGC	240	CAN/N.B. AGRIC. DEV. SUBSIDIARY AGREEMENT (1978-84) (GDA)
AGC	241	CAN/N.S. AGRIC AND FOOD DEV. AGREEMENT (1982-87) (GDA)
AGC	242	CAN/QUE. SUBSIDIARY AGREE. ON AGRIC. DEV. (1975-84) (GDA)
AGC	243	CAN/B.C. SUBSIDIARY AGREE. ON AGRIC. & RURAL DEV. (73-85) (GDA)
AGC	244	FED. DEV. STRATEGY FOR P.E.I. (AGRIC. DEV.) (1981-84)
AGC	245	CAN/P.E.I. SUBSIDIARY AGREE. ON AGRI-FOOD DEV. (1984-89) (ERDA)
AGC	246	CAN/N.B. SUBSIDIARY AGREE. ON AGRI-FOOD DEV. (1984-89) (ERDA)
AGC	247	ASSIST PLAN FOR INN&TECH TRANS IN QUE AGRI-FD IND (84-89) (ERDA)
AGC	248	CAN/MAN. SUBSIDIARY AGREE. ON AGRI-FOOD DEV. (1984-89) (ERDA)
AGC	249	GENETIC IMPROVEMENT PROGRAMS
AGC	250	CAN/SASK. SUBSIDIARY AGREE. ON AGRIC. DEVELOP. (1984-89) (ERDA)
AGC	251	SHOWCASE HERDS
AGC	252	PRODUCTION DEVELOPMENT ASSISTANCE INITIATIVE
AGC	253	PRODUCTION GRANT INITIATIVES
AGC	254	CROP IMPROVEMENT/DEVELOPMENT
AGC	255	CROP IMPROVEMENT/RESOURCES AND ENVIRONMENT
AGC	256	FARM IMPROVEMENT LOANS
AGC	257	EASTERN CANADA APPLE COMPENSATION AND REESTABLISHMENT PLAN
AGC	258	CAN/MAN. VALUE-ADDED CROPS PROD. SUB. AGREE. (1979-84) (GDA)
CDC	200	DAIRY SUPPORT PROGRAM
CGC	231	CANADIAN GRAIN COMMISSION ADMINISTRATION
CGC	232	CANADIAN GRAIN COMMISSION ECONOMICS AND STATISTICS
CGC	233	CANADIAN GRAIN COMMISSION GRAIN RESEARCH LABORATORY
CGC	234	CANADIAN GRAIN COMMISSION WEIGHING DIVISION
CGC	235	CANADIAN GRAIN COMMISSION GRAIN INSPECTION
CTC	10	WESTERN GRAIN TRANSPORT
CTC	11	AT AND EAST GRAIN & FLOUR SUBSIDY
CTC	14	ATLANTIC FREIGHT ASSISTANCE
EAC	100	INTERNATIONAL TRADE DEVELOPMENT

EC	1	WEATHER SERVICES
EC	18	COMMERCIAL CHEMICALS
EC	22	TOXIC CHEMICALS
EC	96	CLIMATE SERVICES
EC	100	WATER MANAGEMENT DATA
EC	102	LAND MONITORING, EVALUATION, DATA SYSTEMS
EIC	13	LABOUR MARKET PLAN. & ADJUSTM. - EIC CANADA FARM LABOUR POOLS
EIC	14	LABR MAR. PLAN. & ADJUST. - EIC FED.-PROV. AGR. EMP. DEV. AGR
EMR	43	INDUSTRIAL ENERGY CONSERVATION TASK FORCES
EMR	44	COMMERCIAL, INSTITUTIONAL & AGRICULTURAL TASK FORCES
EMR	49	FEDERAL-PROVINCIAL DEMOS (CREDA)
EMR	53	BIOENERGY DEVELOPMENT PROGRAM
HWC	100	FOOD SAFETY, QUALITY AND NUTRITION
HWC	102	ENVIRONMENTAL QUALITY AND HAZARD
LFBC	1	FEED FREIGHT EQUALIZATION PROGRAM
LFBC	10	GRAIN STORAGE ASSISTANCE, SUPPLY AND PRICE STABILITY, AND PUBS
NFPMC	1	NATIONAL FARM PRODUCTS MARKETING COUNCIL
NFPMC	2	AGENCIES ESTAB. UNDER THE FARM PRODUCTS MARKET. AGENCIES ACT
PFRA	207	PFRA WATER RESOURCES DEVELOPMENT PROGRAM
PFRA	208	PFRA RURAL WATER DEVELOPMENT PROGRAM
PFRA	209	PFRA - OTHER SOIL & WATER CONSERVATION PROGRAMS
PFRA	210	PRAIRIE LIVESTOCK DROUGHT ASSISTANCE PROGRAM
RCCE	30	GAZ TAX REFUND PROGRAM
TC	220	BRANCH LINE REHABILITATION PROGRAM
TC	225	ACQUISITION AND LEASING OF HOPPER CARS
TEC	5	FARMING PROVISIONS
FCC	1	FARM CREDIT CORP - NIL REPORT
EAC	a	GRAINS & OILSEEDS
CDC	b	DAIRY COMMISSION - PROGRAM EXPENDITURES
CWB	c	CANADIAN WHEAT BOARD

STUDY TEAM MEMBERS

Team Leader

Mr. Jan d'Ailly
Starlaw Holdings Ltd.
1130 Sherbrooke St. W.
Montreal, P.Q.

Private Sector Members

Mr. Jim Stringham
Senior Vice-President
Ralston-Purina
Rexton, Ontario

Mr. Paul Stewart
Bank of Commerce
(Agriculture Department)
Toronto, Ontario

Mr. Matt Kuhn
Assistant Vice-President
Bell Northern Research
Ottawa, Ontario

Mr. A.M. Runciman
Former President
United Grain Growers
Winnipeg, Manitoba

Public Sector Members

Mr. Peter Caskey
Director General
Environmental Strategies
Environmental Protection
Service
Environment Canada
Ottawa, Ontario

Mr. Don Dobson
Senior Analyst
Office of the Comptroller General
Ottawa, Ontario

Mr. Martin Ulrich
Director
Program Evaluation Policy
Division
Office of the Comptroller
General
Ottawa, Ontario

Professional Support

Dr. John Dingwall
Program Analyst
Treasury Board Secretariat
Ottawa, Ontario

Mr. D. Kuntze
External Affairs
Ottawa, Ontario

OVERVIEW

Purpose

To present the findings and observations of the review by the mixed study team on Agricultural Programs.

Background

The agricultural review encompasses approximately 42 programs involving some $2.7 billion, as well as tax expenditures valued at $400 million. It includes programs of Agriculture Canada and agencies, Transport Canada, Consumer and Corporate Affairs, Environment Canada, National Health and Welfare, and the External Affairs programs that relate to grains and oilseeds.

Agriculture Canada objectives for its sector are growth, competitiveness and stability. These objectives were adopted by the study team in conducting our reviews. We found that objectives and reality do not always mesh.

Introduction

At the risk of stating the obvious, today's society evolved out of an agricultural environment. Whereas, at one point, a majority of the people were involved in farming, less than five per cent of employment now is on the farm. Even if we take the full agri-food sector into account, it represents only about 15 per cent of Canadian jobs.

While in the past all people relied on their neighbours for emotional and material support, that is only still true within the farm community. If the corner restaurant or store disappears, people barely notice. When a farmer runs into misfortune, his community suffers with him.

The urbanization of the country has created a group of people distinct from the rural community. Exposure to different influences and ethics create different life styles and attitudes. A new generation of highly educated and specialized farmers is taking over. They manage their farm as a business making use of all the tools modern society has available.

Generally, the programs established by the government still have the flavour of yesteryear. Agriculture Canada is

not quite in step with today's reality, demands and possibilities. It is having a problem living up to its former reputation as a leader, innovator and prime mover of ideas and methods.

In doing our work, we have always been guided by the question:

Is It Good For Canada?

Observations

Research (Competitiveness)

The research department of Agriculture Canada is probably a prime example of the foregoing. Not too long ago, Canada was recognized as a leader in the world of agricultural research, particularly in regard to grains. It can claim a number of successes in breeding high quality grains. Its latest accomplishment lies in opening the international market, particular the U.S.market for Canola.

In the eyes of the study team, the research department is quite content with its past and is living off its reputation. With the exception of Canola, its true accomplishments recently have been few and far between. It has all the signs of heading for trouble in that:

a. Its staff is aging; they have been there for a long time.
b. It is overadministered and undermanaged.
c. No, or little, rejuvenation has taken place since there is limited turnover.
d. What was right long ago is considered right for today.

An example of the last point is that "high protein" wheat is still the be-all and end-all. Market profiles and cost considerations have changed. There is therefore more demand for lower protein grains although buyers still prefer high protein products. If Canada could sell "gluten" derived from high protein grains and sell lower protein grains, we would open up new markets for both basic products while creating a secondary value-added industry.

In the view of the study team, the government should consider reorganizing the research branch to allow for

greater client direction. The Branch should not, as it does, consider itself the "prime mover" of Agriculture Canada but rather should be an element of an innovative product development and delivery system. Having said that, the executive of Agriculture Canada should suggest and direct initiatives and generally support research branch activities. Additionaly, the branch should use its expertise to:

a. Develop varieties of existing products or develop new products that can be grown in the Atlantic Provinces.
b. Develop new products or improve existing products that could be grown in areas where Native people live using their skills (wild rice, berries, basic grains, etc.).
c. Products that for some reason are not attractive now should be made marketable. For instance, we overcame complaints about slaughtering methods of livestock. Can we reposition other products?

The Research Branch should use part of its budget for pure, basic, research. It has proven it can be effective. We feel that a conscious split between research and development will improve performance in a major way.

Marketing (Growth)

When talking to Agriculture Canada much weight is being given to the marketing aspect of the department. We found a wealth of information and data collection capability available. Information is being disseminated to those interested and help is given to those who ask for it.

To a large extent, however, this is a reactive exercise. Actions are taken after the fact. Much study - not enough planning.

There does not seem to be a consensus as to what growth means: is it in terms of more tons of product or more dollars of revenue; is it domestic or export; is it more of the same product or a larger variety of products; is it an improvment in the balance of payments or is it larger net income to the producer; is it more involvement by Agriculture Canada in the farm community or is it to make the farmer stronger and therefore less dependent on various levels of government?

Although the answer may seem to be obvious in some instances, the fact that there is no common understanding of the word "growth" may well account for the perceived lack of dynamism and direction in this area.

As indicated before, Agriculture Canada seems to have many of the tools necessary to become more successful. Instead of being re-active it should become pro-active.

If indeed one of the goals is to export more at a higher return, then all know-how and means should be gathered to accomplish this.

new market for existing products,
new products for existing markets,
new products for new markets.

A more concerted, continuous effort is required to accomplish this. The study team recommends to the Task Force that the government consider creating a permanent agriculture post in key areas abroad, where specific expertise is called for. The Agriculture Canada individual would have administrative ties to the head of the post but should receive his functional direction from Agriculture Canada. The department would rotate its personnel as it sees fit to accommodate both market requirements and organizational priorities, and bear all associated costs.

It should be clear that identification of new products and/or markets immediately leads to research and development (R&D) input and involvement. R&D should therefore be more goal (market, client) driven.

The same principle of activity identification as listed above (new products for existing markets, etc.) can be used for other purposes. By replacing the word "market" by the word "farm" or "farm area" a whole new set of pro-active possibilities opens up.

Special Marketing Tools

We would be remiss not to mention the Supply-Management Boards, their special cousin the Canadian Dairy Commission (CDC) and the stabilization programs.

The study team considers Supply-Management Systems (SMS) an intrusion into the free market system to protect

the producer and thereby keep him interested in supplying the market thus ensuring product to the consumer.

The results of this intrusion, while interesting in concept, include many of the current difficulties in the supply management of eggs, turkeys, chickens and dairy products.

The assurance of a market (quantity) at a fixed price encourages inefficiencies. Guaranteed profit margins (quotas) immediately take on a commercial value and life of their own. A quota becomes marketable. As a result, that same quota gets to be capitalized into the farm value. It is not uncommon that the total price one pays for a farm consists of 1/2 quota value and 1/2 farm land and buildings value. In this way we have inadvertantly increased our farm property values for many different types of farms. The cycle of borrowing, interest payments, etc. is obvious.

A stabilization program guarantees a minimum return for those products sold. The market serves as an indicator of the viability of the product and/or farm.

Conclusion

The study team sees enormous potential in the future of the marketing activities of Agriculture Canada. Identifying horizons and then managing the effort to get there should show major improvements.

Inspection

The study team on Agriculture was asked to look into the large area of inspection programs. After having done so, a secondary decision was to be made as to whether a full scale program review should be undertaken. We feel that our review covers adequately the areas of food, plant health, pesticides and chemicals as well as animal health.

Other areas of inspection, such as weights and measures, no doubt will be reviewed by the study team on Regulatory Reform.

As a result of the Economic Statement of November, 1984, the Agriculture Department expenditures were reduced by $32 million. Consequently, the Food Inspection Branch was asked to start, as soon as possible, a cost recovery program for the services provided. Because of the hurried

nature of this action, sufficient time was not available to come up with a truly effective program.

Some inconsistencies have resulted. It has become clear that not all products could be charged for inspection on the same basis. This is now recognized and we are confident that problems will be worked out.

What we are not sure of is whether there is a clear understanding in all areas as to what risks in inspection, if any, are acceptable. The Inspection Branch obtains new funds, mandates, and person-years by pointing out one major hazard which occurred some 30 years ago.

The study team is of the opinion that Agriculture Canada should not bear the whole burden of responsibility to determine what risk levels are acceptable.

Therefore the study team recommends to the Task Force that the government consider duplicating a recent exercise undertaken by Harvard University and the City of Boston by asking a mixed group of citizens to pass judgement on the issue of bio-genetic research.

Similarly, a mixed group of government experts and private sector citizens should be asked to join on an Advisory Committee to establish acceptable risk factors for new processes, food products, additives, plants, seeds, pesticides, chemicals, etc. Inspection programs can then be set up to match those standards.

Consumer and Corporate Affairs, Health and Welfare and Agriculture Canada are often concerned about the same product or processor. At one time, it was considered advantageous to create a single inspection agency to take on all inspection requirements.

Because of the very distinctive requirements of expertise and location of the inspection, we suggest that debate on the merits of a single agency be dropped so that full attention can be paid to the job at hand. Keeping this in mind:

a. Agriculture Canada should concern itself with inspection of all products at the farm, processing and distribution levels as well as imports. It involves itself with quality and safety in the case of meat products. CCA should concern itself

with inspection on the "shelf" as to issues of misrepresentation. Health and Welfare should concern itself with safety factors in terms of additives, chemicals and residuals in food items.

b. There is a fourth player which is Environment Canada. It concerns itself with issues of chemical runoff into water basins and channels, air pollution, etc. While the first three departments seem to wish to get on with their duties, it appears that Environment Canada could do with some encouragement.

c. The duplication between the above departments can be remedied as indicated. Of larger concern is the duplication that exists between provincial and federal inspections. Consistent with our overall approach of simplification, wherever possible, we recommend that inspections be conducted at the provincial level.

   The above obviously would apply only in those provinces where there is provincial inspection, at this time. It is proposed that the federal government negotiate a cost-sharing arrangement whereby, where necessary, the provincial agent inspects products according to national standards. These agent/inspectors (inspections) would be audited by federal employees. These agents would be authorized to certify, on behalf of the federal government those products that require this inspection level in order to cross borders.

d. The Grain Commission does a variety of inspections as to weights, grades and quality of grains. We feel that, in spite of its high reputation, it would benefit if a mixed public-private sector advisory committee would be put in place in order to establish and review inspection standards regularly.

e. For those organizations/companies which can demonstrate the operation of an adequate good safety system as well as their commitment to it the governmenmt should make a self-certifying system available.

f. Generally, and importantly, our foreign customers will have confidence in our products to the degree of quality, purity and safety we expect of them within our own borders.

Risk Protection (Stability)

The farm community faces a number of risks uncommon to other business. These include weather conditions (drought, moisture, frost and the timing of these), market conditions at time of sowing and harvesting, year-long investments in time and money for a once a year harvest, vulnerability to imports, and others.

Nonetheless, a great deal of data has been accumulated over the years so that in most cases valid actuarially based decisions can be made.

Over the years, farmers have found a sympathetic ear at the political level to help out in periods of difficulty. Apart from a number of actuarially sound risk protection programs, there also exist so-called ad-hoc programs that by now can be phased out and which should be converted into fully funded risk insurance programs.

There are a variety of premium and damage assessment schemes. It is the view of the study team that in the risk protection area there should be a more even division of burden as suggested in our individual reviews. This means generally more burden to the province, the same or more to the producer and less to the federal government.

Consistent with insurance issues are the stabilization programs, where attempts are made to protect against unfavourable market movements. Most of this burden fell on the federal government. It is the opinion of the study team that with the historic data available a truly tripartite program could be established with one-third cost-sharing among the producer, the province and the federal government.

The study team also recommends to the task force that the government consider allowing the producer to buy additional insurance at a rate considerably higher than the shared premium.

The above suggestions would simplify the whole system markedly, greatly improving the appearance of fairness in

establishing damage, by having the assessor share the cost of the burdens.

Finally, there exists a risk on an ad-hoc basis for our producers caused by large imports of foreign products, most often as a result of exceptional circumstances in other countries (e.g. over-supply of tomatoes in Spain finding a way into Canada).

Rather than having Agriculture Canada going to Cabinet for each item (amounts as little as $200,000 - can take 10 days processing for approval) a modest budget could be identified (i.e. $6 million) from which Agriculture Canada could make discretionary payments (up to $2 million) for each case, subject to internal audit.

Taxation

The agriculture sector is the only major industry which is allowed to use "cash" rather than "accrual" accounting for tax purposes because it is easier for the farmer and gives him some advantages. This is both condescending and economically inefficient.

The study team is of the view that it has established that "cash accounting " based tax provisions could, and in fact have, led to short term decisions which were not in the long term interest of the farmer.

It is estimated that as a result of the current system as much as, and quite possibly substantially more than $10 billion worth of inventory is outside of the valuation and tax system. This inventory is being pushed foward like a bow-wave, increasing in size each year, if for no other reason than inflationary appreciation.

At an arbitrary 10 per cent tax rate this would represent one billion dollars as a tax shortfall. If it were decided to bring this inventory into the mainstream, provisions would have to be made to ease it, say over a 10 year period. This would represent, therefore, $100 million per year extra income to the federal treasury.

The smaller or less successful farmer could be hurt by such a changeover; consequently we suggest that some form of partial "forgiveness" be allowed if such a measure were introduced.

One consequence of a move to accrual accounting could be a substantial elimination of the "hobby farm" provisions of current tax legislation.

A second and major issue which applies to the farming community is capital gains. In the past the farmer was considered able to take care of his retirement age needs through the income derived from the sale of his farm, that need has now been lessened through new tax RRSP provisions.

The study team recommends to the Task Force that the government consider capping the unlimited capital gains roll-over for intergenerational transfers of farm property. The results of this approach would be both the protection of those already counting on the benefits of a historic "right" and a reduction in the rapid growth of farm values. It would also make it easier for new generations and new farmers to get into business on their own.

The study team views so positively the prospects offered by our tax assessment, both for the farmer and the country as a whole, that we believe consideration of the advantages and implications should proceed as quickly as possible.

Canadian Dairy Commission (CDC)

For the private sector members of the study team, it became clear that the task of reviewing the CDC was considered as something special, without promise of even partial success, wrought with intrigue, full of stumbling blocks, strewn with traps, emotional, politically sensitive and, foremost, an issue with important financial implications. We found all of the above to be true.

Our first draft of the assessment was done fairly early in our three month mandate. We knew soon what made sense but we did not know how to get there. Further, it was important for us to feel totally comfortable with our assessment and recommendations.

In spite of the fact that we do not support any new supply-management schemes we feel that the CDC should be the one exception: it is now, in fact, already such an organization with the added advantages of subsidy contributions and direct access to the Minister.

Apart from the basic inequity represented by the CDC concept, we feel that its proximity to the Minister puts undue pressure on the political system.

The study team prefers to see the CDC under the supervision of the National Farm Products Marketing Council (NFPMC). On that basis, it would be producer-financed and operated, working within its own financial restraints.

A second option would be to create and support an active board with full powers made up of representative of producers, processors and consumers. Direct government subsidies would still be eliminated.

Accountability, although existing on paper, seems to be lacking in practice. It is important that true costs be established and be made known to the public.

Canadian Wheat Board (CWB)

The Canadian Wheat Board (CWB) was established in the 1930s to market prairie grain throughout the rest of Canada and the world. It was given exclusive powers, particularly the right to issue import and export permits for wheat, barley and oats.

CWB appears quite successful. It internalizes much of its information in order to avoid divulging marketing information to potential competitors or buyers in what, ultimately, is a highly secretive trade.

To accomplish this, information cannot flow to the producer members, at least not in detail, and the Board prefers to stay very much at arm's length from the central government in order not to offend its own member (Western) constituency.

We have been told that not more than 20 per cent of supply is being sold at full price. The rest goes to buyers who themselves get subsidy, or credit, or who are recipients of donated wheat and/or flour. The criticism on credit sales is not necessarily well founded.

The CWB has large accounts receivable from Poland and Brazil, as a result of negotiations entered into by government request and the limited availability of larger markets at the time. However, Poland has continued to purchase on a cash basis.

The CWB is managed by five Commissioners. The Chief Commissioner and members are appointed by Order-in-Council. The Chief Commissioner presides at sessions of the Board. Neither the Chief nor Assistant Chief Commissioner have special authority under the Act. Any accountability is a collective Board accountability. The Commissioners have equal decision-making power and are automatically backed by other members.

The result of such an arrangement is that no one outside the Board will ever know who made what kind of error, or for that matter, who made the larger percentage of correct decisions.

In the commodity trade, be it grain, coffee, sugar, cocoa or other, misjudgements are made. This is truly a business where the percentage of correct decisions over 50 per cent is the measure of success, and where misjudgements can be very costly.

Unless there are very stringent internal rules as to daily and/or maximum limits as well as a number of other benchmarks, it is quite easy to encounter pitfalls.

The lack of concentrated leadership shows up in the lack of planning. It was admitted that no thought had been given to what would happen if one of our large markets disappeared. Obviously, no contingency plans exist. We feel that a combination of market research (Agriculture Canada, CWB) and Research (Agriculture Canada, pilot plants, etc.) is necessary to create secondary products and/or markets.

In closing, one has to wonder whether an organization such as the Canadian Wheat Board is a liability or an asset. It discourages criticism, tends to stifle innovation, slows down strategic thinking and could become a vehicle to hide mistakes.

After due consideration we would strongly suggest a re-organization along specific lines of accountability. With that in place, long term goals can be established and results can be monitored. We think that the CWB could be and would be a much better organization as a result.

Having said all this, we recognize that no such suggestions can be forced upon the Board. Under present legislation, they are an independent organization.

Other Issues

Consumers

In the final analysis, it is the taxpayers, citizens and all consumers, in addition to the farmer, who are affected by these issues - a focus that is easy to forget in the reviewing and the writing.

With this in mind the study team met with the president of the Food Committee of the Consumers Association of Canada. The Association had a number of concerns; four of them touched on our subject matter.

A great deal of concern was expressed as to inspection of food products, particularly meat products once they reach the retail store. A second concern was that of setting standards for the use of chemicals and pesticides in either finished products, the growing process or the environment. The third point was that they are against supply management marketing boards because it increases the cost of products to the consumer (.08 cents and more for a dozen eggs, etc.) and finally, as a remedy towards the last point, as well as general principal, they promote free trade, particularly with the U.S.

All above points have been dealt with elsewhere except, of course, the issue of international trade negotiations.

Government

Although the title is wide we would really only highlight two issues. The bureaucracy would function much better, cheaper and faster if it was:

- Result-oriented rather than activity oriented,
- Less preoccupied with person-years and budget enhancement and consequent expenditures and more preoccupied with output and cost reduction.

Conclusion

We have found a wide array of programs, all of which no doubt served a good purpose at one point. Time and circumstances, however, have caught up with many of these programs. Current information or experience allow a

different approach and changing economic and geographic circumstances have rendered them less effective or useful.

The study team perceived a sense of defensiveness in many of these programs. Geared to protect the family farm, they tend to be survival-oriented (status quo) rather than future-oriented toward market growth.

We feel that the government should lead the agriculture community out of this inherently defensive attitude and point the way into the new era of wealth creation through business development. The world is large; we can and should have a larger slice of the international market pie. When we gear ourselves up to accomplish this we should be able to say:

"Agriculture Is Good For Canada"

DEVELOPMENT RELATED PROGRAMS
ECONOMIC DEVELOPMENT IN AGRICULTURE

The agriculture sector is a major contributor to the high standard of living in Canada. It provides Canadians with high quality food at a relatively low cost and it generates a major share of our foreign exchange earnings.

Agriculture in Canada is capital-intensive with more than 300,000 independently owned and operated farm businesses, many of which are dependent on the vagaries of weather and located on a marginal land base. Accordingly, this industry operates in an environment of high production risk and associated economic risks. Moreover, because of Canadian geography and the location of markets for Canadian produce, the marketing and distribution of farm production is important to the economic wellbeing of farmers. Accordingly, the federal government devotes substantial resources both to stabilization and to marketing infrastructure programs.

However, a stable and orderly industry is not sufficient by itself. Many of the economic benefits from Canada's agricultural sector are now vulnerable to:

a. increasing production and productivity in the United States and other grain exporting competitors, as well as in the controlled economies which now take much of our wheat exports;
b. threats of countervail action by the United States for some of our meat and livestock exports; and
c. growing imports of food. At the same time, Canada's soil resource base is degrading at an alarming rate, notably by the increasing salinization of prairie soil and by the reduction of organic matter in the cultivated soils of all regions.

To maintain and increase Canada's net foreign exchange earnings from agriculture will require both substantial increases in agricultural productivity and responsiveness to changing domestic and foreign food product demands. Such changes are denoted as "development" in our review. Development relates closely in our view to the growth and efficiency objectives formally established by Agriculture Canada.

Concerns

In broad terms, our review of the federal government's programs in agriculture leads us to two major concerns. First, in our view the development role, played principally by Agriculture Canada, is not well managed to achieve maximum development. An alternative approach to management is described in the next section.

Second, the stabilization and marketing activities of the federal government (and several provinces) have evolved to include substantial degrees of subsidization. Regulation has evolved to convey further benefits which may indirectly have the effect of further subsidizing agriculture. This "subsidization" appears to be leading to artificially inflated land prices and production quota prices (for supply managed commodities). In addition, these programs are encouraging production of crops in regions which do not have a comparative advantage (balkanization) and encouraging economically inefficient production due to over-capitalization resulting from taxation provisions. In short, it appears that many of the important marketing and stabilization activities are contributing to a higher cost agriculture than necessary. And, a high cost product poses a very serious threat to continued exports and reduced imports. Recognizing the major role net agricultural exports play in Canada's economic well-being, this is not just an agricultural problem; it is a problem for all Canadians.

The individual program reviews of stabilization and marketing programs identify the cases where we believe these programs have the greatest potential "negative-development" effects. We believe that our suggestions, if followed, will eliminate most of the more serious negative-development effects without undermining the essential marketing and stabilization roles. Nevertheless, these programs should continue to be carefully monitored as to their impact on the cost of producing agricultural commodities. Principles for assessing stabilization programs are described in our review of risk management.

Management of Development Programs

In the case of the remaining programs, denoted as "development programs", we believe that in addition to the specific suggestions made in the review of these individual

programs, the government should consider undertaking major changes in the overall management of these programs. The intent is to make their development role more valid and to establish procedures to assure Canadians are getting maximum return for their investment in agricultural development.

Generally, the development program includes the activities of the Research, Regional Development, and Marketing and Economics Branches of Agriculture Canada and the Grains and Oilseeds program of External Affairs. Together, these specific programs comprise approximately 5,550 person-years and $450 million in funds during 1985/86.

The purpose of this overview is not to design such a "development program", but to outline some of the broad principles which should guide its design and management. The program should be seen as encompassing three elements, namely:

a. natural resource base maintenance and enhancement;
b. research, development and commercialization; and
c. market analysis and development.

Sustained capacity to produce competitively requires the combination of natural resources, technology put in practice, and economics. None should be seen as intrinsically more or less important than any other, although allocation of resources at any particular time will reflect priorities based on analysis of long term economic returns.

The maintenance of Canada's agricultural land and water resource base is crucial. Decisions by individual farmers, facing particular economic conditions and knowledge, cannot always be expected to assure the long term inter-generational maintenance of the resource base. The problem has become particularly acute on the prairies where water is scarce and the soil is degrading rapidly. A much revised Prairie Farm Rehabilitation Administration could become part of the solution, but this would only be one part. A broad program of monitoring the soil and water resource base and of adjusting farming practices and institutional arrangements to restore degrading soil across Canada is required. The Land Resources Research Institute and certain aspects of the research program as well as potential tax provisions provide the instruments.

Most analysis indicates a substantial payoff from development research. This is especially so when research is managed to be responsive to the commercial interests of the potential users of the research. Accordingly, in addition to maintaining a core of researcher-driven basic research, the crop, livestock and food processing development research should be managed to be responsive to the marketplace. On one hand, this could be obtained by extending the role of producer and processor organizations in directing and funding such research. On the other hand, especially for new crops or growth of existing crops in different regions, analyses of economic and production potential could be used to guide development research. To obtain production and productivity gains, research must be applied in a commercially viable manner. Accordingly, in addition to provincial extension, the federal government may need to continue to engage in "technology transfer" through commercialization experiments such as the New Crop Development Program, demonstration such as carried out by the Research Branch and PFRA or joint provincial-federal ERDA agreements. In all cases the criteria included: (a) return on investment for public funds and (b) willingness to pay on the part of producer and processor groups.

Markets must be found for the increased or altered production at economically rewarding prices. The job is not just one of aggressive salesmanship. Although this is important, it also is important to assess market needs to adjust the product to evolving demand. The market analysis and marketing component would carry out this task together with commodity associations who may wish to do their own marketing, and, of course, the Canadian Wheat Board for western wheat, barley and oats.

Many components of the proposed development program now exist. However, they do not give evidence of being managed in an integrated manner responding to a single over-riding development objective. To do so, we suggest that the government consider the preparation of an annually updated "long term business development plan" which would contain explicit strategies for all commodity groups and major individual commodities. These strategies would guide all marketing, research and natural resource activities and would complement the marketing and research activities of commodity associations and provincial governments. To implement such a plan in an effective way might require designation of product-line managers in Agriculture Canada with broad authority and resources to adjust the programs in

each of the three elements. It might be beneficial to create a "development fund" comprising the total existing resources of current development programs as a pool to be allocated in the plan to product-line managers. This approach has been used with good results in successful private sector firms.

Special Development Adjustment Provisions

The preparation of the business development plan should be based on the analysis of economic benefit to the country generally. Inevitably, this will lead to regional and sectoral effects which in the short term may prove to be difficult to accept. For example, it appears that such an approach, at least in the first instance, would have a detrimental effect on agriculture in Atlantic Canada. In this case, it may be preferable to tilt the development program in favour of crops or commodities likely to support agriculture in Atlantic Canada rather than to enrich stabilization programs or transportation assistance programs such as Feed Freight Assistance. Indeed, the savings from excessive subsidization and marketing support might wisely be allocated to such development initiatives. Such a program, it should be emphasized, would be vastly superior to excessive subsidization or balkanization of the entire Canadian agriculture industry. To keep the management priorities and accountabilities clear, it might be beneficial to create, in addition to an overall "development fund", an "adjustment fund" for special research and development of products aimed at particular regions or farm sectors requiring adjustment assistance. However, it would be crucial for the integrity of the development program that this special fund be no larger than 10-15 per cent of the total development fund and be sunsetted after 10 years.

MARKETING AND TRADE ANALYSIS
(Agriculture Canada)

OBJECTIVE

To provide market participants and governments with timely and reliable market intelligence, analysis, and policy advice.

AUTHORITY

Department of Agriculture Act.

DESCRIPTION

Market data and economic information is gathered, compiled, and disseminated. Information includes:

- prices, volumes, and domestic movement of agricultural and food products;
- developments in domestic markets, including data on food processing and distribution, transportation and handling, cooperatives, marketing boards, and food service;
- agricultural and food commodity forecasts;
- consumer demand analysis to detect shifting consumption patterns.

International trade statistics and information on trade barriers, practices, and developments are gathered analyzed, and disseminated. Foreign market commodity profiles are developed as an aid to potential exporters.

Strategies based on analyses of supply, demand, and prices are developed in co-operation with research and production experts.

Analyses are conducted on the probable impacts of changes in programs, legislation, and regulations that may affect the viability of the sector and the level of supply to the market, (e.g. for inputs such as pesticides, herbicides, and energy).

Production and marketing costs are calculated and analysed for agricultural and food commodities as input to the Agricultural Stabilization Board and the NFPMC.

Domestic and international policies that affect the Agri-food sector are analysed and evaluated.

An annual economic Outlook Conference is organized for Agri-food sector participants.

BENEFICIARIES

Federal Department of Agriculture
Provincial Governments
Agricultural producers
Agri-food private industries
Transportation industries
Lending institutions
International Agri-food organizations
Consumers

EXPENDITURES ($ million)

	84/85 Main Estimates	PYs	85/86 Main Estimates	PYs
Market Intelligence and Information	3.8	72	4.9	79
Market Analysis and Advice	2.6	53	3.0	58

OBSERVATIONS

The economic analysis group is in effect a staff support function responding to the needs of its clientele.

It is difficult to measure and ascribe any hard performance indicators or benefits for the production of economic data. Economic data and analysis and the production of reports, once put in place in the system, tend to perpetuate themselves without reference to changes in the levels of priority attached to the information.

Although there are attempts at co-ordinating the work of Economics and Marketing Branch, Research Branch, and Production Branch, there does not appear to be a clear leader in the area of development strategies. There are current attempts to work out commodity-based strategies,

while regionally based development strategies have been designed over the recent years as a basis for ERDA program design.

ASSESSMENT

A substantial base of data and analysis is essential to intelligent decision making for existing and potential Agri-food strategies. However, systems are required to test the continued necessity to produce the various types of economic information and analysis.

Commodity Strategies, essential as a key planning tool, must bring together land use expertise, the Research Branch, the Food Production and Inspection Branch, the Market Analysis and Market Development groups, and Regional Development. The Market Analysis group has the analytical expertise to be at the centre of the Commodity Strategy approach, and the first strategy (hogs) is currently being orchestrated by this group. The expertise in development program design will need to come from the Regional Development Branch.

Agriculture Canada supports an additional economic analysis group in Production Development Policy (59 person-years) and analysts in Regional Development Offices in every province within the Regional Development Branch. A review of total resources may indicate advantages in combining the two groups.

The transformation of Research Branch in the direction of explicit investment in agricultural development will require substantial economic analysis which in recent years has neither been asked for nor provided to any significant degree by either of the economic analysis groups.

OPTIONS

The study team recommends to the Task Force that the government consider redirecting the program towards commodity strategy analysis in support of the department's agriculture development goals.

REGIONAL DEVELOPMENT ANALYSIS AND ADVICE
(Agriculture Canada)

OBJECTIVE

To provide analysis and advice required to establish federal policies and initiatives that promote regional production and resource development.

AUTHORITY

Department of Agriculture Act.

RESOURCES ($ millions)

	83/84		84/85		85/86	
	Actual Expend-itures	PYs	Main Esti-mates	PYs	Main Esti-mates	PYs
Development Analyses and Advice for Resources, Production and Development	2.4	42	3.7	60	3.5	61

DESCRIPTION

This program provides economic analysis and advice, in order to:

1. assess current policies and programs affecting regional development;

2. identify opportunities and formulate strategies for regional development, eg. with respect to:

   - basic resources (eg. land, finance, human resources);

   - farm inputs (eg. machinery, fertilizers, chemicals); and

- crop production and marketing.

3. provide forecasts on farm production input factors for the Outlook Conference program.

Recently, this group has focused on:

- Agriculture Subsidiary Agreements within the framework of the federal/provincial Economic and Regional Development Agreements (ERDA's);

- development programs for particular regions such as southeast New Brunswick and the lower St. Lawrence and Gaspé; and

- analysis and advice on particular problems such as the financial situation of farmers.

This economic analysis group plays an integrative role by:

- ensuring that regional strategies, designed in conjunction with the development offices in the field, are integrated with more general commodity, resource, and input strategies; and

- participating in the development and assessment of non-Departmental policies and programs affecting regional development.

ASSESSMENT

Various assessment notes have commented on the need for integrated agriculture development programming. Over the last five years, many regional development offices in provincial capitals have designed and negotiated major development programs based on province-by-province appraisals of development needs and opportunities. The province by-province strategies which underpin this programming were balanced for consistency by this development policy group and endorsed by the senior management of the department.

The assessment note on the Marketing and Trade Analysis program referred to the potential value of commodity strategies, while noting that none had yet been designed. Good development programming should be geared to market opportunities. If clear strategies on the major commodities

had been in place over the last five years, they could have provided guidance or at least a good analytical test for the regional development programming.

In the absence of overall commodity strategies, the department may find it difficult to resist provincial pressures to fund a particular "shopping list" of proposals.

Comprehensive commodity strategies should guide development programming, which then is tailored to regional conditions and potentials. Future ERDA sub-agreements could then be used with greater confidence as developmental vehicles, integrated with each other and with all other Agriculture Canada programs.

A modest level of economic analysis was provided to the Research Branch from this program until five years ago. The transformation of the Research Branch in the direction of explicit investment in agricultural development would require substantial economic analysis. Since much of the work of Research Branch is at the primary production level, it is this Regional Development Analysis group which must upgrade its service to this high priority departmental need.

The Regional Development Analysis group undertakes studies on farm finance, and on the taxation system and its impact on agriculture. Upgrading of Agriculture Canada's understanding of these issues is imperative, and more analytical effort is required.

The assessment note for Marketing and Trade Analysis (with its 137 person-years) observed that there are two major economic groups in the department, and that a review of total resources may indicate advantages in combining the two groups.

OPTIONS

The study team recommends to the Task Force that the government consider maintaining efforts in regional development analysis; expanded analysis in support of the development thrust of the Research Branch, and in the field of farm finance/taxation is required.

SCIENTIFIC RESEARCH AND DEVELOPMENT
(Agriculture Canada)

OBJECTIVE

To develop and transfer new knowledge and technology that will improve the agri-food sector productivity and competitiveness, improve quality of food products, and contribute to the continued viability of the agri-food system.

AUTHORITY

Experimental Farm Stations Act (1867)

RESOURCES ($millions)

	83/84	84/85	85/86	86/87	87/88
Personnel costs	128.7	132.2	141.3	142.3	142.8
Non-Pay operating exp.	41.6	46.0	41.3	39.3	37.8
Capital	31.3	56.5	78.5	37.7	52.2
Grants & Contributions	15.6	2.2	1.9	1.9	1.9
Total Exp.	217.3	237.1	263.1	221.3	234.8
Revenues	(4.2)	(4.6)	(N/A)	(N/A)	(N/A)
Person-years	3,687	3,594	3,636	3,668	3,682

OPERATIONS

The Research Branch operates 43 major research establishments and 15 sub-stations across Canada. They are organized under five geographic regions and a set of national institutes and are distributed approximately as follows: Atlantic 10 per cent, Quebec 10 per cent, Ontario 25 per cent, Prairies 30 per cent, Pacific 10 per cent, and national institutes 15 per cent. The national institutes are located in Ottawa and carry out research primarily of national scope. The regional research establishments are oriented more to the agricultural problems of their region and are co-ordinated through regional and national administrations. The staff of approximately 3,600 includes 881 professionals, most of whom are trained to the PhD level.

Agriculture Canada conducts approximately 50 per cent of Canada's total agricultural R&D effort. Universities conduct 25 per cent, industry 16 per cent, the provinces 6 per cent, and the National Research Council 3 per cent. The Research Branch conducts about 95 per cent of Agriculture Canada's internal R&D program. The remaining 5 per cent is in the area of animal health in the Production and Inspection Branch.

BENEFICIARIES

The major direct beneficiaries are the primary livestock and crop producers and processors, and other branches and agencies of the federal and provincial governments who need the results and use the resource in supplying their mandated public service (ie. Federal/Provincial Agri-industry development programs (ERDA's), grading and inspection programs, and CIDA international development programs).

The average Canadian Consumer benefits broadly but indirectly through the availability of relatively low cost high quality food, and Canada increasingly benefits from major export earnings from agricultural commodities.

PROGRAM DESCRIPTION

The program is extremely broad, covering most animal, crop and food production processes used in Canadian agriculture, and ranging from hands-on support of the local farmer to advanced research in biotechnology and genetic engineering. In addition, it also maintains and develops the national data bases on agricultural soil and water resources, biological species, plant diseases, and develops pest control technology.

The work program is structured into three productivity development efforts addressing animal productivity, crop productivity and food processing, a supporting research effort on national resource base protection and new technology development, and overall management and administration support. The person year and expenditure allocations are:

	PYs	$(84/85 OPF)
Animal Productivity Development	549	35M
Crop Productivity Development	1,126	68M
Food Processing Development	138	17M
Natural Resource Base and Support	956	61M
Management/Administration	823	54M

Each of these efforts is briefly described below.

ANIMAL PRODUCTIVITY DEVELOPMENT

The animal productivity development programs address the development of animal production systems, based on genetic improvement and managment of feed input, animal growth and housing, to optimize the economics of production in Canada's different geographic regions. Program activity is carried out across Canada; (major locations: Kentville, Nova Scotia, Lennoxville, Quebec, Ottawa, Lethbridge, Alberta, and Agassiz, B.C.) Major program impact is cost reduction and quality improvement in primary production of commodity animals. The development programs, along with the estimated annual producer cash receipts are shown in the following table:

	PROGRAM PYs	COMMODITY FARMGATE VALUE (81-82)
Beef	163	$4,500M
Dairy	170	2,600M
Swine	65	1,960M
Poultry	90	1,500M
Sheep	49	28M
Bees	12	62M

The major beneficiaries of these efforts are the primary livestock producers, who co-operate through their respective commodity councils to develop their markets and manage supply.

CROP PRODUCTIVITY DEVELOPMENT

The crop productivity development programs develop plant varieties for increased hardiness, quality and yield, and extend new plant growth opportunities in Canada. The programs are widely distributed across Canada, addressing

local growth conditions and needs through regional research establishments. Major research programs are carried in Beaverlodge and Ottawa. Primary impact is on quantity, quality and cost of commodity crop production per hectare, and increased availability of horticultural plant varieties in Canada. The programs, estimated annual farm gate producer cash receipts are listed below:

	PROGRAM PYs		COMMODITY FARMGATE VALUE (81-82)
CEREALS	330		$6,100M
Wheats		(160)	4,400M
Barley			920M
Corn		(170)	432M
Rye & Oats			133M
OIL SEEDS	87		$ 950M
Canola			600M
Soybean			220M
Flax			130M
FORAGE GRASSES	205		$4,200M
HORTICULTURE	504		$3,000M
Vegetables		(231)	
Field Crops		(83)	
Fruits/Berries		(152)	
Ornamentals		(38)	

The direct beneficiaries again are the primary crop producers. Most major crop producers also co-operate through commodity councils to develop their market and production. The beneficiaries in horticulture are broader, including private individuals and small businesses.

FOOD PROCESSING DEVELOPMENT

The food research program develops knowledge and technology required to extract basic foodstuff components from cereals, oilseeds, and other crops (gums, oils, starches, fruit flavors, etc.) for use as "value added" ingredients in food production, provides technology support to meat, fruit and vegetable processors, and generates basic information on nutrition and safety in food products. At present, there are nine research establishments across Canada involved in food research including a major new establishment at St-Hyacinthe, P.Q., and the Food Research Institute in Ottawa. 67 person-years are invested in crop processing, 45 person-years in livestock processing, and 25 person-years in food safety and nutrition.

The primary direct impact of this program is on the Canadian Food Processing Industry, which consists of some 4,000 small businesses and some 18-20 large but primarily foreign owned branch plant operations, which do very little R&D in Canada. The industry currently invests about 0.1 per cent of sales in R&D. The public also benefits from the food safety and nutrition information.

NATURAL RESOURCE BASE AND SUPPORT PROGRAMS

The Natural Resource Base and Support Programs provide basic information and technology required to protect and develop the natural resource base of the agri-industry, to support the production development programs described above, and to explore potential applications of advances in science to the agri-food sector. They address land characteristics and effects of intensive utilization (194 PY's),agricultural water resources (48 PY's), plant and animal pest protection (275 PY's), biological species identification (109 PY's), agriengineering practices (94 PY's) and biotechnology research/support services (174 PY's). These programs are carried out largely through a set of national institutes located in Ottawa, in co-operation with regional laboratories and field stations in data gathering and application.

- The Land and Water Resources Research Institute (154 PYs) produces and supplies agricultural Land/Water characteristics and erosion information, and maintains the national data base.

- The Biosystematics Research Institute (121 PYs) supplies an identification service for biological organisms and maintains the national data base.

- The Chemistry and Biology Research Institute (96 PYs) addresses chemical and biological fertilization, pest control and biotechnology research.

- The Energy Engineering and Statistics Institute (98 PYs) supports the farm building code and supplies the "Canada Plan" Design Service for farm structures.

- The primary beneficiaries of these programs are the federal and provincial governments, who, in their role as the prime stewards of the use of our natural resource base, develop the policies and regulations that establish the environment in which commercial agricultural enterprise operates.

MANAGEMENT AND ADMINISTRATION

The Research Branch is managed through five regional administrations, each under one Director General, a national institutes administration under a Director General, and a branch headquarters administration under the Assistant Deputy Minister. Each research establishment is independently managed within its allocated budget and person years. Programs are co-ordinated within each region by regional program co-ordinators and between regions by national program co-ordinators at Branch headquarters under a Director General, Program Coordination. Resource and PY allocations and changes are reviewed and approved by the Research Branch management committee consisting of the Directors General and the ADM Research, who chairs the Committee.

The Branch operates a detailed management-by-objectives process for work planning, project description and authorization, and reconciliation with Research Branch priorities. The management/administration element consists of 23 person-years in executive and general management, 383 person-years in program management/co-ordination, and 417 person-years in administrative support.

Co-ordination with other federal-provincial, university and industry research, is carried out through the Canadian Agricultural Services Co-ordinating Committee,(CASCC), and a subcommittee, the Canadian Agricultural Research Committee, (CARC), through an ongoing series of program reviews by expert committees of CARC. CASCC is chaired by the Deputy Minister Agriculture Canada. Its members include the DM of Agriculture Canada, the provincial deputy ministers, the deans of the school of agriculture and veterinary medicine, the Council of Research and Agriculture Services, the Agricultural Institute of Canada, National Research Council, Statistics Canada and other provincial members. CASCC may recommend actions by one or more of its 36 members but has no powers of direction over any of them.

OBSERVATIONS

Overall perceptions

There is ample evidence that federal investment in agricultural research and development has been very good for Canada. One hundred years ago, food was scarce, food markets were limited by supply, and most taxpayers were family farmers. These were good reasons for the federal government to take leadership, through the Department of Agriculture and the Experimental Farm Stations Act in funding and performing agricultural R&D to develop Canada's agricultural potential.

Over the years, major contributions have been made by the department in opening the west, and developing agricultural production, to the point where it not only satisfies Canadian needs but also provides a major contribution to Canada's export earnings, second only to exports of forest products.

Because the markets were supply-limited, and food was expensive, research and development could readily address most possibilities for improvement in quality and quantity of food supply in Canada, and still expect a very good return on investment. For example, economic studies estimate an average internal rate of return of 30-40 per cent from investment in agricultural R&D in Canada and the United States over the last 50 years.

Today, however, food in Canada and the western world has become plentiful, and food markets are becoming increasingly demand driven, selective, and internationally competitive. Furthermore, the Canadian agriculture industry has now also developed substantially beyond the multi-crop family farm, into high intensity production operations for specific commodities. Many of these now are organized into producer groups or commodity councils to develop and implement commodity marketing and supply management strategies.

In the forseeable future, Canada's capacity to produce can continue to increasingly exceed internal demand, while international competition for export of agricultural commodities and processed food products are expected to increase. In addition, application of new technologies from biotechnology to electronics will substantially quicken the pace of innovation in the agrifood industry throughout the world.

In the context of this scenario, there are three major issues which Agriculture Canada must address in order to contribute as effectively to Canada's future agri-industry development, as it has in building Canada's agricultural base in the past:

- how to better support Canadian agri-industry business development in an international, competitive market; (Agri-business development)

- how to better direct R&D efforts in an increasingly market limited, competitive environment; (R&D program management)

- how to avoid obsolescence and stay technologically competitive in the face of ever faster innovation in the industry (Human resources).

Observations on the current situation relating to those issues in Agriculture Canada and the R&D programs are noted below:

Agri-business Development

For some years, there has been recognition within Agriculture Canada of the need for agri-industry development based on commodity business plans which address world market opportunities and Canadian supply capabilities. Generation of such commodity strategies requires major conributions from all branches of Agriculture Canada, and close collaboration among them. Unfortunately each of the branches operates sufficiently independently that no substantive commodity strategies have yet emerged.

R&D Management

The work of the Research Branch covers three broad aspects: ongoing problem-solving and support to producers primarily from local research stations, specific animal, crop and food processing development programs usually carried out in several research centres across Canada, and long term basic research mostly conducted in the Institutes. About 80 per cent of the program appears to be commodity development work and producer support, yet all of the program is managed through a frame of reference appropriate to basic research; i.e. most projects are originated by individual scientists; publishing scientific papers is most highly valued and rewarded, and "programs" are assembled through co-ordination of individual projects.

Although there are elaborate MBO processes for work planning, project description and authorization, and work programs are described in the operating plan as multi-laboratory development programs across Canada, we did not find program managers with delegated authority to manage such multi-laboratory programs, below the Regional Directors General and the ADM Research. Nor did we find evidence of accountability for program deliverables to clients outside the Research Branch line management.

The CASCC/CARC system was set up in 1932 to provide co-ordination and direction of research, but it is not providing adequate client direction to the Research Branch Development programs, and is not sufficiently sensitive to industry needs and participation. However, in many cases, there now exist producer groups and commodity councils which are learning to operate successfully as producer group agents to develop their markets and manage their production. They should be more fully involved in the direction of the commodity development programs in return for at least partial funding. About 50 per cent of the development programs may be appropriate for such collaborative cost shared funding with commodity councils. While this would result in some saving of federal expenditures, it would provide much stronger client direction, and provide a good path for eventual privatization of at least some of the sustaining R&D.

Development of commodity strategies in closer co-operation with responsible producer groups, and introduction of a product line management approach to R&D allocation and program management, could be the most effective way to support agri-industry development in the increasingly competitive and technologically challenging world market environment.

In a product line management system an R&D program manager has technology and product development responsibility but is accountable for negotiating an appropriate R&D program and delivering results to a client, the product line manager, who has business development responsibility, and is usually outside the R&D organization. The R&D organization is responsible for directing longer term basic and applied research programs, to deliver on development commitments to product line clients, and to manage the total R&D effort as a cost effective, un-interrupted innovation delivery system on behalf of the business. In a typical large industrial

research and development laboratory, 80 to 90 per cent of its programs are development programs under external product line management control. The other 10-20 per cent are longer term applied research and technology acquisition, which are directed by the laboratory to keep itself competitive and meet the long term strategic needs of the business.

R&D Program

Because the R&D operations are highly decentralized, they can provide excellent support to local producers in problem solving and production development. Since they are also a highly visible local federal presence, they are subject to considerable regional influence in resource allocation and program development. Consequently, one can expect to find some anachronisms in program content and some inefficiences in program delivery. For example:

Federal R&D funds support programs across the board, from bees and tobacco to cattle and wheat. Some 25 person-years are invested in research on tobacco in Ontario and Quebec, while at the same time additional person-years are invested in funding commercially viable replacement crops for tobacco. The benefits in tobacco research are not nationally strategic and accrue to the tobacco industry directly. One could be more selective and either not do the work, or at least expect the client commodity group or province, to whom it is of most direct benefit, to share in its cost or carry the programs.

Major programs in animal or crop development such as wheat, cattle and swine which have economic importance in several regions, are currently allocated to different regions, not necessarily for sound technical, managerial or economic reasons. For example, swine research is carried out in six locations and poultry research in three. Yet both are environmentally controlled production operations. Consolidation of swine production development into one national centre of expertise could deliver results more efficiently. Poultry production has become so specialized, and highly developed by industry that further involvement in poultry R&D by Agriculture Canada is questionable.

The national institutes, through their central location in Ottawa, may gain efficiencies in the conduct of research. However, these efficiencies may be diluted significantly because the institutes are not linked closely to other centres of expertise (e.g. universities).

For example, the Biosystematics Institute and its national collection and identification experts could be more effectively utilized in closer association with a university environment where they could contribute to graduate teaching and benefit from graduate student research as well. The Food Research Institute could be effectively integrated with the St-Hyacinthe Food Research Center, or co-located with an appropriate university.

The Chemistry and Biology Research Institute, the Ottawa Plant Research Center, and the new Animal Research Center in Ottawa, could form the basis for a major new thrust in agricultural biotechnology and genetic engineering. The Land Resources Institute, being more operationally oriented, might fit better with another Branch, or be integrated with similar activities with the forestry component or in the Department of the Environment.

The Engineering Research Institute in many ways is an orphan among biologists. It should probably be strengthened, and more heavily involved in production development programs to enhance the engineering and management contributions to productivity improvement through closer alignment with regional development programs.

Biotechnology/genetic engineering and natural resource base protection/development should be strengthened significantly and become the major thrusts for the Ottawa based research and development programs.

Human Resources

Perhaps the most serious challenges facing the Research Branch operation is in the area of human resources, and their working and management environment. Over the last 15 years, the Branch has experienced a gradual reduction of human resources of some 125 person-years. Low attrition and a reduced intake of new graduates has resulted in aging of the resource base and a skill mix, perhaps more suited to yesterday's problems than to tomorrow's needs.

The age distribution of Research Branch Scientists is:

AGE	PEOPLE	PER CENT	
Under 29	3	0.04	
30-34	51	7.2	22%
35-39	105	14.9	

AGE	PEOPLE	PER CENT
40-44	118	16.7
45-49	130	18.4
50-54	90	12.7
55-59	119	16.9
Over 60	90	12.8

30%

60%

This means that of the research scientists in the branch today, 30 per cent are 55 years old or older, 60 per cent are 45 or older, and only 22 per cent are under 40 years old. This is a considerably older population than is characteristic of an innovative research environment in industry. If one considers, in addition, the age and experience distribution of the Research Branch management, most of whom came from the research scientist population, the real situation is undoubtedly more serious.

Personnel transfers out of the Research Branch into other departments (federal or provincial) or into industry are infrequent. This may be due in part to the branch practice of offering lifetime careers in selected research specialties. With today's rate of change in technology and society, this may not be sustainable, nor desirable, from the point of view of both the research scientist and the department.

Most successful industrial R&D organizations work hard to develop career opportunities for more senior experienced R&D staff into production, marketing, sales and services or management, and also to universities and government, in order to carry the benefit of their experience to other parts of the business or industry and to keep research and development activities as dynamic and innovative as possible.

New approaches to the career development of government research staff are needed in all research departments of government. These approaches must encourage much greater people interchange between industry and other departments and generate a net outflow of experienced people as well as information from the Research Branch operations on an ongoing basis.

ASSESSMENT

Are we investing too much in agriculture research and development?

There is general agreement in the agricultural industry and the scientific community, including the Science Council and the Ministry of State for Science & Technology, that the current level of R&D investment is not too high, relative to its longterm track record of return on investment, the size of the Canadian agri-food industry, and its potential for further development and contribution to export earnings. There are also no compelling arguments for investing more under the present circumstances.

There is also general agreement that in the field of agriculture, federal conduct of R&D and coordination of agri-industry development is appropriate, and that leadership from Agriculture Canada is expected.

Are we getting maximum value from our R&D investments today?

No, because the programs tend not to be managed that way by Agriculture Canada. They tend to be managed more as "technology driven" research programs than value driven development programs. Yet the major program elements are animal and crop productivity development, and production support. There is no real accountability for program deliverables to clients outside the Research Branch, and little evidence of effective program management authority within the Branch other than through co-ordination among the Regional Directors General and the ADM Research.

The programs are very broad, ranging from hands-on support of farmers, to advanced research in biotechnology, and cover most animal and crop development possibilities in Canada. Probably too much emphasis is now placed on effort to support production improvement "on the farm" versus "after the farm gate", value added food materials and processes. Program direction today may be too much "biology driven" and emphasize traditional animal/crop breeding development over other, equally important contributions to commodity production and processing productivity improvement.

Improved direction to the Research Branch, based on world market oriented agri-industry development strategy, strengthened program management within the branch, and greater collaboration with universities in basic research and with industries in applied research and development, would significantly increase the effectiveness of the R&D investments in agriculture.

What are the major roadblocks to be overcome?

Agriculture Canada now does not have world market oriented agri-industry business development plans on a commodity by commodity, or a commodity product line basis, to provide better market direction to the R&D programs. Such commodity marketing and product line plans are difficult to develop but are badly needed to build exports and focus development. While Agriculture Canada, with strong industry support, probably has the resources and mandate to develop them, the various branches currently are not collaborating effectively enough to generate them.

Increased participation by the agri-industry in R&D program direction is needed and co-operative funding of specific commodity development programs would be mutually beneficial, providing much more direct influence over program development by industry, generate "real" clients for the R&D programs, and transfer at least some of the federal cost of the program to the most direct beneficiary. The CASCC and CARC systems provide reasonably good communication and co-ordination of Federal/Provincial agricultural basic research programs, and could be simplified, and used for that purpose.

Improved R&D program management within the Branch is needed, which is more responsive to external client direction, based on business development priorities. R&D programs are now relatively loosely co-ordinated, based largely on internal Research Branch priorities. Consolidation of some development programs around national centers of expertise could improve the efficiency of program delivery. Closing a number of small marginal field stations across the country could also improve operating efficiency.

Agriculture Canada and the Research Branch in particular appears to be limited in implementing program changes by its current skill mix of relatively senior technical and management staff. A concerted effort to develop employee transfers, secondments and early retirement

incentives for senior management and scientific staff could allow more timely implementation of needed program changes. In addition, a major revision of scientific staff career development and utilization practices is needed to establish the necessary conditions for continued successful innovation in an environment of increasingly rapid technological and sociological change.

OPTIONS

The study team recommends to the Task Force that the government consider:

- instructing Agriculture Canada to generate agri-industry development plans and commodity strategies which can meet future world market demands and best exploit Canada's food production capability and guide its future development.

- using these commodity strategies to give direction and focus to commodity R&D programs through a commodity product line managment process, including joint management and shared funding of the R&D programs with client producer groups or commodity councils. Cost sharing would be implemented progressively over 3-5 years, to bring the average producer group share to approximately 25% of the funding for a cost-shared commodity development program.

- terminating currently identified low priority R&D unless it is funded by a client and there is no acceptable alternate R&D provider. The Research Branch A-base review has identified low priority items totalling $12 million in 1984/85, and $7 million in 1985/86.

- developing and implementing progressive programs of transfers, secondments and early retirement incentives for senior management and scientific staff to allow more rapid program evolution, rejuvenate the technical staff and envigorate management in the Research Branch; developing new approaches to career management of government research staff which must encourage much greater mobility, and interchange between industry, universities and other departments of government.

Comment

Goals of efficiency and effectiveness within federal research laboratories are not assisted by the internal and external (i.e. purchasing and contracting procedures imposed by Supply and Services Canada) controls, personnel constraints (on classification and management) and documentation and justification requirements.

Such "micromanagement", or excessively detailed directions to, and requirements from the Research Laboratories, which focus on detailed procedures, rather than content should be eliminated or at least significantly reduced. They consume substantial effort, cause excessive delays, and more importantly, they isolate and demotivate technical management and scientific staff to the point where productivity is seriously inhibited.

Federal Laboratories which operate in support of major industrial sectors should be allowed and encouraged to function on a much more business-like basis, both in their internal operations and in their client relations. For example, partial long term core funding on the basis of strategic national investment, coupled with the need to earn some client funded applications work, might well be the way to unleash their substantial talent and creativity. A more entrepreneurial partnership with industry could help create new wealth for Canada.

ECONOMIC/REGIONAL DEVELOPMENT AGREEMENTS: AGRI-FOOD SECTOR (ERDA) (Agriculture Canada)

OBJECTIVE

Agreements, which are in place for Saskatchewan, Manitoba, New Brunswick and P.E.I. aim at regional economic development through:

- increasing production and productivity of selected crops (maintenance of exports or seizing a perceived export opportunity); and
- maintenance/enhancement of the soil resource base.

This program is a continuation of agri-food sub-agreements under the General Development Agreements signed with provinces in the early 70's.

AUTHORITY

Department of Agriculture Act.

RESOURCES ($millions)

	84/85	85/86	86/87	87/88
Saskatchewan	1.5	7.5	7.5	7.5
Manitoba	1.0	4.6	5.3	5.8
New Brunswick	2.1	5.9	6.3	6.0
Prince Edward Island	4.1	5.9	6.8	5.8
Quebec	0.5	1.1	1.1	1.0
Total Expenditures	9.2	25.0	27.0	26.1
Total PY's	44	88	88	86

(The Quebec program, although considered for budget purposes an ERDA, does not involve joint Canada-Quebec projects. It provides federal assistance to projects aimed at increased productivity within the agri-business sector.)

OPERATIONS/EFFECTS

Projects covered are:

a. Crop/livestock productivity and production (Sask., Man., P.E.I., N.B., Que.)

b. Irrigation (Sask.)
c. Human resources development (Sask., Man.)
d. Product quality improvement (N.B.)
e. Market development (P.E.I.)
f. Soil/water conservation (Sask., Man., P.E.I.)
g. Community water infrastructure (Sask.)

These projects use a full range of expenditure instruments, namely: conduct of research, provision of information, subsidies, contributions, demonstration projects and so on. Many of the agreements have not spelled out the nature of the delivery; rather they have targeted resources to particular purposes.

All ERDA agri-business sub-agreements are managed by the provincial director of Agriculture Canada's Regional Development Branch. These directors, located in each province, are responsible for agricultural development. Each sub-agreement requires the preparation of an evaluation plan which identifies what results are to be measured for evaluating the sub-agreement. As well, there are annual performance review meetings.

ASSESSMENT

This specific program should be seen as one element of a broader program denoted as "development" in the Overview. Broadly speaking, development occurs in three areas:

a. resources, in particular to sustain or enhance the production capacity;

b. productivity; and

c. marketing, including international trade.

This group of activities parallel roughly the "business development" role in a private sector firm.

The current group of agri-business sub-agreements allocate $25 million to resource development, $16 million to production development and $3 million to market development. The $16 million allocated to community water supplies is not related to the agricultural development role.

Information on the return from investment of these projects will not be available until they are implemented.

There is no evidence that analysis of estimated returns was used formally in the selection of projects. Estimates of return from similar projects under earlier General Development Agreements also are not readily available. Assurance of the value of these projects, accordingly, must be based on agreement by both the federal and provincial governments to participate and by the management procedures in place. Accordingly, there is little assurance that the allocation of funds to resource conservation, productivity, and marketing is optimal.

ERDA sub-agreements are flexible instruments which can range over both federal and provincial jurisdicitions and they include clear sunset provisions. Some of this flexibility is limited by an apparent "almost automatic" targeting of GDA funding levels to ERDA's and the expectation that there should be an ERDA agri-business sub-agreement for each province.

OPTIONS

The study team recommends to the Task Force that the government consider instructing Agriculture Canada to identify all its activities principally associated with its development role. This would include, in addition to ERDA sub-agreements, the Crop Development Program, some aspects of the Research Branch,and the regional directors of the Regional Development Branch. Depending on the evolution of the Prairie Farm Rehabilitation Act, it also might be included. These resources could be seen as a pool from which a "business development" program can be constructed. While such a program need not be managed as a separate branch, it could be managed consistent with a periodically updated "business development plan". The aim of this plan would be to assure that the federal government is maximizing the economic benefits to Canada from the agriculture industry. This would require continual market analysis and development, production and productivity development in marketable products, and maintenance of the agricultural resource base to maintain production in future generations. Agriculture Canada programs of equalization and insurance, inspection and market services, financial intermediation and basic research, if managed as proposed in other review notes, would support and would not conflict with this development role. However, further balkanization of the Canadian market through supply management, excessive subsidization through insurance, stabilization and financial

intermediation programs, or excessive regulation, could seriously undermine the development role.

If the present ERDA program is not integrated into such a "business development plan," it should be vigorously evaluated as to its contribution to a) economic development and b) maintenance and enhancement of the soil and water resource base. This evaluation should be crucial to the further funding of this instrument in the agriculture sector.

CROP PRODUCTION
(Agriculture Canada)

OBJECTIVE/BACKGROUND

This program contains two parts: a) a crop development fund to test and demonstrate the commercialization of new crops and b) a small analysis function, which in cooperation with Research Branch and Marketing Branch staff, identifies crop developments to be pursued to commercialization and natural resource and cultural practices limitations to continued commercial production.

Its central focus is improving production efficiency and maintaining the agricultural natural resource base.

AUTHORITY

No specific legislative authority. The New Crop Development Fund was initiated in the early 70's, and has been re-authorized by Cabinet every three years.

RESOURCES ($ million)

	82/83	83/84	84/85	85/86
New Crop Development Grants	.7	.7	.7	.7
Operations	.4	.5	.8	1.0
Person-Years	12	12	14	16

OPERATIONS/EFFECTS

The principal portion of this program is the New Crop Development Fund which provides for joint (usually 50-50) funding of projects with universities, producer associations, industry associations, or co-ops and companies.

Provides monitoring and analysis services for development of "commodity strategies", generates production risk data needed for crop insurance programs, policy advice, including forecasting natural resource related problems such as prairie drought.

ASSESSMENT

The New Crop Development Fund appears to be a very successful instrument for connecting new crop research

findings to commercialization and providing guidance on further research needs (from a commercial development perspective).

Evaluation of these projects indicate that many projects have been instrumental in commercialization of several new crops, such as canola, grain corn production, forage corn production, lentil production, utility (lower quality) wheats, in identifying major problems in other crops thought to be commercial, and in identifying appropriate farming practices for new crops.

The analysis support and monitoring function appears to be essential to certain operations described previously.It should be noted that this program is heavily dependent on Research Branch products and expertise.

Given the major role agriculture plays in Canadian economic performance, and the key impact this program could have in Agriculture Canada's central role of increasing productivity and development of Canadian agriculture, this program as presently operated seems inadequate to the task.

Reallocation of resources from research to these development activities might be beneficial.

The analysis activities of the group appear not to be adequately linked to land resource management activities of PFRA.

OPTIONS

The study team recommends to the Task Force that the government consider instructing Agriculture Canada to identify all its activities principally used for development. This would include, in addition to the Crop Development Program, ERDA sub-agreements, some aspects of Research Branch and the regional directors of the Regional Development Branch. Depending on the evolution of the Prairie Farm Rehabilitation Administration, it also might be included. These resources could be seen as a pool from which a "business development" program is constructed. While such a program need not be managed as a separate branch, it would be managed consistent with a periodically updated "business development plan". The aim of this plan would be to assure that the federal government is maximizing the economic benefits to Canada from the agriculture industry. This will require continual market analysis and

development, production development in marketable products and maintenance of the resource base to maintain agricultural production for future generations. Agriculture Canada programs of equalization and insurance, inspection and market services, financial intermediation and basic research, if managed as proposed in other review notes, would support and would not conflict with this development role. However, further balkanization of the Canadian market through supply management, excessive subsidization through insurance, stabilization and financial intermediation programs, or excessive regulation could seriously undermine the development role.

If the present program is not integrated into such a "business development plan," the present functions within the program could be placed on a firmer, continuing basis:

- without eliminating periodic reviews, the New Crop Development Fund should be seen as a continuing program; and

- the role of the Resources and Environmental Group, the Land Resoucres Research Institute and the Lands Directorate (Environment Canada) agricultural land activities should be clarified with the joint resources allocated so as to assure the maximum support to agricultural soil conservation.

AT AND EAST OF BUFFALO FREIGHT SUBSIDY
(Canadian Transport Commission)

OBJECTIVE

This program provides for a) the continuation of freight subsidies for eastern movement of western grain and flour for export beyond Thunder Bay and b) for freight subsidies for Ontario grain and flour for export by lake and then rail to lower St. Lawrence and Atlantic ports.

BACKGROUND

The program was a pre-seaway initiative aimed at ensuring Canadian export grain was transported over Canadian territory and exported from a Canadian port. The subsidy was confirmed in the 1967 amendment of the Railway Act (Section 272) at frozen 1960 rates for grain and 1966 rates for flour.

This program is also seen as regional support program for Atlantic provinces.

AUTHORITY

Section 272, Railway Act, 1967.

RESOURCES ($ million)

	83/84	84/85	85/86	86/87
Expenditure	32.3	40.3	40.4	43.1
Person-Years	2	2	2	2

DESCRIPTION AND EFFECTS

Subsidy is paid to a railway based on the difference between calculation by the Canadian Transport Commission (CTC) of "compensatory" rate and "frozen" rate.

Used principally when the St. Lawrence Seaway is closed to move grain and flour to Halifax and Saint John ports. There is relatively little movement to the lower St. Lawrence, because the Seaway is cheaper and St. Lawrence terminal capacity is sufficient to handle winter loadings.

Other than perhaps during Western port strikes, use of this subsidy by rail to Thunder Bay, lakers to Georgian Bay

ports and rail to Halifax/Saint John - is not seen as essential for grain exports (2.2 per cent of grain exports in 1983). Some evidence suggests non-subsidized unit trains from Thunder Bay to St. Lawrence ports are virtually competitive with the subsidized "At and East" network.

Flour exports to Cuba might be at risk if the program were terminated, since 45 per cent of flour exports in 1983 were supported by this program. The USSR purchased 74 per cent of Canadian exports of flour in 1980. No contract is yet signed with USSR for current year. Since the European Economic Community's (EEC) current bids for flour are roughly $75 U.S. per tonne lower than Canadian bids, future Canadian flour export prospects are dim even with the continued availability of the "At and East" subsidy.

There is inefficient movement of Ontario grain, since conditions require a) rail/truck to Great Lakes terminal, b) laker to another Great Lakes terminal, and c) rail to Atlantic port. This means that some grain must move toward Thunder Bay before moving east in order to qualify for the subsidy.

The Atlantic Provinces Transportation Commission believes that without the subsidy, Halifax' Dover Milling's flour mill would become uneconomic and a significant number of jobs would be lost. Without the USSR contract, it is believed the mill would become uneconomic in any case. A CTC evaluation estimates losses at both Saint John and Halifax at less than 85 jobs.

BENEFICIARIES

Some "small" Great Lakes lakers are provided with some additional business.

Some pre-Seaway Great Lakes terminals have business they otherwise would not have. Without the subsidy, some pre-Seaway terminals on Georgian Bay might close. Others would serve the growing Ontario feed grain and export grain production.

Halifax and Saint John elevators have some business they otherwise would not have.

Possibly, some flour millers could have reduced export sales. (With preference by importers for local blending of grains for flour, less flour is being traded internationally

and within this more limited market France's vigorous subsidies are more than offsetting Canadian subsidies).

ASSESSMENT

If it did not exist, this subsidy would not be introduced today.

It does not serve a vital link in Canada grain trade.

While it does support 45 per cent (1983) of Canada's flour exports, principally exported through Halifax and Saint John for delivery to Cuba (purchased by USSR), this export market is likely to dry up with or without this program. EEC support per tonne for flour exports in 1980 was $77 (U.S.)compared to approximately $25 (U.S.) for Canada. The international flour trade is on a downward trend due to importer preference to blend grain and mill flour locally. Accordingly, even the regional benefit of this program to Halifax and Saint John is tenuous.

Should Seaway tariffs increase dramatically, the Canadian Wheat Board could switch some of its Atlantic deliveries to the "At and East" network, thereby increasing significantly the costs of this program to the federal treasury.

OPTIONS

The study team recommends to the Task Force that the government consider terminating the program (with or without a Halifax-Saint John offset program). This would require legislative change. It would also eliminate the rationale for the Stop Off Charge subsidy (see the Grains and Oilseed Program).

Note "stop-off" charges for western flour included in the Grains and Oilseed Program.

FEED FREIGHT ASSISTANCE
(Includes Canadian Livestock Feed Board)

OBJECTIVES

Initially established during World War II, to increase central and eastern Canadian livestock production by subsidizing the cost of transportation of western feed grains to central and eastern livestock producers.

Generally speaking the program divides Canada into two zones: one with surplus feed grains; and the other with insufficient feed grain production to supply users. The current designation, set in the mid-70's includes:

- most of British Columbia, Yukon, Northwest Territories, Northern Ontario and Eastern Canada, east and north of the St. Lawrence valley in the feed grain deficit zone; and

- the Prairies, Southern Ontario and St. Lawrence Valley of Quebec in the feed grain surplus zone.

Recently the program was adjusted to encourage feed grain producers in the feed deficit region by providing production subsidies equal to transportation subsidies.

AUTHORITY

Livestock Feed Assistance Act, 1966, and amended in 1976, enables but does not require this program.

RESOURCES **($ million)**

	82/83	**83/84**	**84/85**	**85/86**	**86/87**
Expenditure	14.7	16.4	17.6	19.7	19.7
Person-Years	24	25	25	25	25

OPERATIONS/EFFECTS

Freight subsidies are paid to feedgrain purchasers in deficit regions for Prairie, Qestern Quebec and Ontario feed grain as well as recently introduced equivalent production subsidies on locally produced grain.

Subsidy levels are based on Canadian Livestock Feedboard recommendations to Cabinet aimed at a relatively flat feed grain cost in feed deficit regions. Prior to recent prairie drought this led to gradually increasing price for feedgrains from the prairies eastward, based on Crow and lately Western Grain Transportation Act subsidized rates. British Columbia subsidies roughly parallel export grain transportation subsidies of the late 70's. Recent price patterns reflect temporary prairie deficits in certain regions.

The subsidy helped establish an eastern livestock industry. If the program were simply terminated some of the livestock industry in feed deficit regions would disappear, at least in Atlantic Canada. Roughly 70 per cent of Atlantic, 80 per cent of British Columbia, and 27 per cent of Quebec feed grain is imported into each region from Ontario and Western Canada.

The Canadian Livestock Feedboard also carries out analyses on feedgrain prices and feedgrain transportation costs.

A temporary Family Farm Assistance Program for Feed Grain Adjustments provided support for Ontario and west Quebec feed grain producers to offset reductions in FFA subsidies in 1976. Removal of FFA subsidy and five-year offset program have supported a substantial increase in feedgrain production in Ontario and west Quebec.

The Livestock Feed Assistance Act provides authority for the Canadian Livestock Feed Board to buy and sell feed and to support feed grain storage activities. These latter powers were used to carry out the Family Farm Assistance Proram for Feed Grain Adjustments which is now terminating.

BENEFICIARIES

Eastern and B.C. livestock producers gain by having subsidized feedgrains.

Eastern and B.C. feed grain producers benefit from the recently introduced subsidy for their production sold to livestock producers.

Western wheat, oats and barley producers and Ontario corn producers gain in that they have a somewhat captive

market due to transport subsidies. However, corn-formula prices may reduce prices to western grain producers to less than world price on occasion.

ASSESSMENT

If such a program were not now in existence, it likely would note be funded.

However, the program has caused significant investments in livestock production and processing in Atlantic region which could, if the program were terminated, become unprofitable. Livestock production has increased in the feed grain deficit region due in part to this program and the subsidies provided to feedgrain transportation under the Western Grain Transportation Act (WGTA) and the earlier Crow regime.

The program (together with WGTA) clearly leads to a substantial misallocation of resources. Economic considerations alone would argue for more feedgrains to be grown in the east, more livestock in the west, and fewer constraints on importing feedgrains.

The impact of the program had been diminishing over time due to growing self-sufficiency in Quebec and to a lesser extent in B.C. and Atlantic. However, new subsidies for deficit regions' feedgrain producers could have a substantial cost and increase feedgrain production in deficit regions.

Feed grain policy, which contains feed freight assistance as one element, is currently under review by the Canadian Wheat Board and by Agriculture Canada. These reviews are addressing other policy provisions such as continued use of corn-formula pricing, two-market system for prairie grain, CWB control of import and export permits for wheat, oats and barley and CWB authority to control quotas for non-CWB grains.

OPTIONS

The study team recommends to the Task Force that the government consider phasing out this program, but with some protection for the severe deficit region (Atlantic, Yukon, NWT) livestock producers. Although B.C. has major feedgrain deficits, its more ready access to Alberta and western U.S. feedgrains provides more flexibility. The speed of phase

out should be based on speed with which an appropriate adjustment program can be established for the severe deficit regions. This requires no change in legislation, but does require changes in regulations established by Order-in-Council.

MARKETING SYSTEMS

OBJECTIVES

To stimulate market promotion and development activities in the private sector and to exploit additional market opportunities for Canadian agri-food products.

To assist the development of more efficient and orderly marketing systems at the regional and national levels.

AUTHORITY

Department of Agriculture Act;
Agricultural Products Co-operative Marketing Act;
Agricultural Products Marketing Act.

RESOURCES ($millions)

Item	84/85 Main Estimates	PYs	85/86 Main Estimates	PYs
Canadian Agricultural Market Development Fund	.3	1	.5	4
Commodity Promotion Programs	2.4	36	1.6	28
Technical Trade Missions	.7	11	.7	12
Consumer Food Market Development	.9	22	1.2	23
Joint Government and Industry Activities	.8	16	1.2	20
Co-operative Marketing Marketing Agencies	0.1	2	0.1	3
Fruit and Vegetable Storage Construction	3.7	2	1.3	2
TOTAL	8.9	91	6.6	92

DESCRIPTION

The Canadian Agriculture Market Development Fund (CAMDF) provides contributions for up to 50 per cent of the costs of selected eligible projects aimed at developing the domestic market.

Commodity Promotion Programs A variety of programs aimed at providing a vehicle for orderly marketing and stimulating of the private sector in its efforts to promote agricultural and food product sales.

Technical Trade Missions and Seminars combine scientific, technical and marketing activities aimed at promoting Canadian food and agricultural products in priority foreign markets.

Consumer Food Market Development assesses consumer attitudes towards requirements for food to assist in improving food products, provides advice to consumers and food service industry on purchasing and utilization of food, and develops promotional campaigns.

Joint Government and Industry Activities, facilitate greater efficiency and the resolution of short and long term market development, transportation, processing, and distribution problems at both the national and regional level in conjunction with the agri-food industry marketing, agencies, and other government organizations.

Agricultural Products Co-operative Marketing Act Agriculture Canada provides loan guarantees to co-operative marketing organizations, to facilitate bank loans to underwrite initial payments to their producers. In 1984/85, eight co-operatives were approved, one of which (B.C. Tree Fruits) had three commodity plans approved. The Contingent Liability in 1984/85 involved $104 million for Ontario Wheat Producers Marketing Board, $20 million for Ontario Bean Producers Marketing Board; no other plan involved a liability greater than $3 million. In 1982/83, the Government had to pay $6.8 million with respect to a shortfall for the Ontario Bean Producers.

Agricultural Products Marketing Act The Act grants to provincial marketing boards extra-provincial jurisdicition on the sale and marketing of their product. Agriculture Canada undertakes a very low level of monitoring.

Fruit and Vegetable Storage Construction Agriculture Canada has provided since 1973 a contribution up to 33.3 per cent of the capital cost of storage facilities. The program has had three year approvals in series and is due to sunset in 1985/86. The funding of $1.2 million in 1985/86 is lower than the recent $3.7 million levels. A program

evaluation is to be submitted prior to April 1, 1985. The funds have mostly supported apple and potato storage.

The Marketing and Economics Branch 1985/86 complement of 293 person-years are organized as follows:

Management and Planning	26	
Administrative Services	19	(not reviewed
	45	by Agri.Team)
Market Intelligence and Information	72	
Market Analysis	53	
	125	
Market Development	60	
Market Systems	25	
	85	

BENEFICIARIES

Producers and organizations marketing Canadian produce in the domestic market and for export.

OBSERVATIONS

Individual programs aimed at commodity promotion and orderly marketing seem to have been put in place on an ad hoc basis without any overall strategic objective.

Programs established on an ad hoc basis tend to lose their effectiveness when the market circumstances which precipitated the original program design change.

Despite the 26 person-years in the management and planning of the Branch, there seems to be little, if any, conceptual framework and description of the part which market development and market systems units in Agriculture Canada should play in developing and implementing comprehensive commodity strategies.

The department has recently obtained Treasury Board approval for a Canadian Agricultural Market Development Initiatives (CAMDI) program to consolidate several elements, (notably CAMDF and fruit and vegetable storage).

ASSESSMENT

Government market development support activities are undertaken by:

- International Trade of External Affairs - export market promotion (western grains and other commodity & food products).

- DRIE - development of all secondary industry including food and beverage; domestic market, and support for export markets.

- Agriculture
  - food processing sector - domestic market support for export market promotion
  - primary sector - domestic market and support for export market promotion.

- CWB - Western grain - direct export sales.

- Provincial Governments - domestic markets
  - support for export and some direct export market promotion.

Agriculture Canada must develop a clear concept of the needs and opportunities for market development in the agri-food industry, as well as a strategy coordinated with the other players. In the view of the study team, these activities are blocked by apparent competitiveness and defensiveness within Agriculture Canada.

It appears that there are good working relations at the federal level in the areas of trade policy, food aid policy and programs and market intelligence. In the area of export market development, Agriculture is confident there is effective, constructive relationships with External Affairs' geographic bureaux and with the posts abroad. However, in the view of the study team, Agriculture Canada's staff and External Affairs (International Trade) staff in Ottawa are highly competitive and defensive.

The Deputy Minister of Agriculture and the deputy minister (International Trade) at External Affairs are actively working to resolve the issues of responsibilities and working relations.

To be effective, Market Development and Market Systems must also be directed on the basis of comprehensive commodity strategies, involving other parts of the Department. Marketing cannot be successful as a "stand-alone" function.

These logical requirements for an effective Agriculture Canada market development function have not been met. Nor does the recently consolidated CAMDI program improve matters.

The CAMDI program in the last 2 years has typically funded 15-20 projects, typically in the $10,000 to $20,000 range (with various cost shares to a maximum of 50 per cent). The evaluation of the projects required by Treasury Board is due April 1, 1985, but has been delayed.

Regardless of the merits of each case, the diversity of projects indicate that there is no concerted or focused sense of strategy, role or leverage for this program. The sum of money ($250,000) is not excessive for the size of this sector of the economy. However, even a moderate sized assistance program needs to be effectively targeted.

There is again a very broad diversity of projects eligible under the new CAMDI program. There are envisioned three possible types of feasibility projects, two types of development projects, and a Canadian capability category "where there is a deficiency in technical capability, production and marketing capability, or skills." The program description from Agriculture Canada notes that "the capability is necessary to the conduct of feasibility and/or development projects".

Technical Trade Missions: Agriculture Canada has a program for Technical Trade Missions to export markets which is separate from the program of trade missions of the International Trade element of External Affairs. Agriculture Canada considers that this is fully consistent with its "technical support to export marketing" responsibility. The Deputy Minister of Agriculture has provided assurances that no technical missions are undertaken without the full support of the External Affairs (International Trade) staff at the post abroad.

Consumer Food Market Development: This activity involves the use of consumer advice and expertise in support of promotional campaigns. Agriculture Canada states they

also provide advice to the food services industry on purchasing and utilization of food.

Fruit and Vegetable Storage Construction: This program has been in operation since 1973 and has contributed about $30 million to construction projects. It does not have a clear commodity strategy framework against which to make decisions and measure effectiveness. The evaluation called for by Treasury Board prior to April 1, 1985 has not been completed.

OPTIONS

The study team recommends to the Task Force that the government consider the following:

- A fundamental new charter is currently needed for Agriculture Canada's role in market development, promotion and infrastructure, both for domestic markets and in support of export market promotion.

- The substance of any acitivity in this area must be rooted in Agriculture Canada commodity strategies, and in the detailed understanding of the potential and limitations of Canada's agri-food industry.

- Market development is not a stand-alone activity but must be managed by Agriculture Canada as an integrated component of the Development Program.

Furthermore, it is recommended that the government consider:

- Substantially redefining the $250,000 program component of the newly consolidated program "to stimulate improvements in marketing" to a more focused, manageable program, based on the new charter and strategies.

- Allowing the Fruit and Vegetable Storage Construction Financial Assistance Program to expire in 1985. If justified by a commmodity development strategy, provision under an ERDA program would be preferrable.

- Instituting shared cost programs of an insurance nature to reduce the risk of government subsidy which can arise from guaranteeing a wholesale price level, where orderly marketing requires federal guarantees of advance payments to cover costs.

- Serving notice that Agriculture Canada will only provide guarantees to organizations for five years, following which the good track record of the marketing organization with its bankers should be well established.

- Revamping all other components of the Market Development and Marketing Systems programs based on the new charter and strategies.

GRAINS AND OILSEEDS PROGRAM

OBJECTIVES

To achieve sustained market growth and an orderly marketing system for grains and oilseeds.

AUTHORITY

External Affairs Act, 1983.
Canadian Wheat Board Act, 1935.

RESOURCES ($ millions)

	83/84	84/85	85/86
Operating Expenditures	2.9	3.5	3.8
Grants and Contributions	18.1	10.6	7.4
Total	21.0	14.1	11.1
Person-Years	58	58	58

* excludes statutory contributions for the Western Grain Stabilization Act (WGSA) and Prairie Grain Advance Payments Act (PGAP) which were transferred to Agriculture Canada (1984).

DESCRIPION

Program activity focuses on:

a. the study and development of methods for moving, storing, processing and selling grains and oilseeds;
b. preparation of production guidelines;
c. establishment of initial payments for Canadian Wheat Board grains;
d. provision of marketing and industrial development assistance; and
e. participation in international and domestic organizations.

Person-years assigned to the program comprise the Office of the Minister of State for the Canadian Wheat Board (14 person-years), a Special Advisory Group on Grains (6 person-years) and the Grain Marketing Bureau, Department of External Affairs (38 person-years).

Four expenditures constitute the major portion (90 per cent) of federal 1985-86 grants and contributions under the program:

a. credit grain sales subsidies ($1.8 million);
b. contributions to the Protein, Oil and Starch (POS) Pilot Plant Corporation ($2 million);
c. payments to Western Canadian flour millers ($1.3 million);
d. contributions to the Canadian International Grains Institute ($1.5 million).

In addition to these direct expenditures, the government accepts a contingent liability for all government approved export credit sales by the CWB and for deficits incurred by the CWB from sales of grain at prices below the "initial" payment guaranteed to producers by the government.

Under the Credit Grain Sales component of the Program, the federal government issues guarantees to chartered banks for borrowings used by the Canadian Wheat Board to finance credit sales. Credit sales are reviewed annually by Cabinet and approval is given for country-specific credit limits.

Initial payments are set annually by Cabinet. They constitute a government guaranteed minimum price per tonne to be paid to producers by the CWB during a crop year. If the CWB's average per tonne revenue is below the initial payment, the CWB's deficit is paid by the government.

OBSERVATIONS

Total guaranteed credit permitted the CWB for credit grain sales is about $5.7 billion. CWB credit outstanding at present is about $3 billion. The government is presently paying interest subsidies on credit grain sales undertaken in 1972. There have been no new commitments on subsidized terms since 1972 and subsidy payments are to cease with maturity of the outstanding credit in 1987-88.

The POS Pilot Plant Corporation is a joint federal government-industry venture established in 1977. Its purpose is to assist industry to develop new or improved processing technology and products. The corporation operates on a non-profit membership fee and fee for service basis. The federal government provided initial capital funding of

$4.5million plus $3 million to cover operating expenses for the first five years.

Payments to western Canadian flour millers are made to equalize their rail freight stop-off charges with those paid by eastern millers for grain processed into flour for export. The rail stop-off rate for eastern millers has been frozen since 1966 but the rate for western millers has not. Since 1973 the government has offset this inequality through direct payments to western millers to keep them competitive with those in the east.

The Canadian International Grains Institute is a non-profit corporation. Operations are cost-shared by the federal government (60 per cent) and CWB (40 per cent). The Institute's programs are designed to provide market development support for the grain and oilseed industry by providing foreign buyers with the opportunity to study Canada's industry.

ASSESSMENT

In regard to CWB credit grain sales, western producers benefit from sales to high risk foreign markets (countries), but the costs associated with purchasing-country payment arrears and debt reschedulings remain a liability of the federal government. Moreover, there is an apparent inequity in the provision of government guarantees since CWB sales are guaranteed free of charge, but non-CWB grain producers can only obtain a government guarantee (through the Export Development Corporation) with payment of a risk premium. The Department of Finance is examining methods to assess the CWB a risk premium on government guaranteed credit sales.

The POS Pilot Plant Corporation's Long Range Plan for the period 1982-86 acknowledges that the government's original $3 million operating expense contribution implied the corporation should become self-sufficient during its first five years. However, the government has continued to contribute to POS operating expenses since 1982 and recently approved a contribution to cover operating deficit of up to $2 million per year for the period to the end of fiscal 1988-89. For reference, the 1984/85 operating budget of the Corporation was $1.7 million, with forecast revenues of $540,000.

Termination of the subsidized freight rates for eastern flour millers is recommended for consideration by the government in the At and East Transportation Subsidy assessment report. Acceptance of this recommendation would eliminate the need for stop-off charge equalization payments to western flour millers.

OPTIONS

The study team recommends to the Task Force that the government consider:

- Assessing the Canadian Wheat Board a risk premium for all credit grain sales undertaken with government guarantees. A premium charge would heighten producer awareness of the risks being assumed by the government and would establish a cost against which the merits of using credit could be assessed.

- Reducing government contributions to the POS Pilot Plant Corporation to zero over the next three years as follows: 1985/86, $2 million; 1986/87, $1 million; 1987/88, $500,000; 1988/89; nil. Continuation of the Corporation during and after this period would be dependent upon increased revenue from member subscriptions and fees from utilization of the facility.

- Terminating payments to Western Canadian flour millers to equalize stop-off charges with those of eastern millers (annual savings, $1.3 million). This recommendation is contingent upon the removal of At and East freight subsidies to eastern millers.

- Reducing the duplication between External Affairs and Agriculture Canada in grains marketing. Person-year savings of at least 10 PY's are possible. Treasury Board should undertake a review to establish the appropriate resource change.

INTERNATIONAL SERVICES AND COORDINATION

OBJECTIVE

To provide advice on policies and programs regarding international aid, trade and development.

AUTHORITY

Department of Agriculture Act.

RESOURCES ($millions)

	84/85 Expenditures	85/86 Estimates
Total	1.4	1.5
Person-Years	22	23

DESCRIPTION

The activities are based in Ottawa and cover the promotion of:

Multilateral Relations (liaison with FAO, WFC, etc.)	5PY	$ .3
Bilateral Relations and International Intelligence.	12PY	$1.2
Research and Technology Transfer (project development with CIDA).	5PY	$ .8
	22PY	$2.3

BENEFICIARIES

Canada's commercial agriculture system which benefits from co-ordinated aid and trade policies and programs, from effective liaison with officials of other countries, as well as international intelligence.

Canada's overall objectives in foreign relations which are advanced through effective representation in multilateral forums.

CIDA and the developing countries receiving Canadian aid, who benefit from well co-ordinated projects based on Agriculture Canada's technical expertise.

OBSERVATIONS

Food aid, while primarily humanitarian, has direct impacts on the demand for agriculutral products and so effects the growth and stability of the sector.

Agricultural development, also primarily humanitarian, has direct short-term impacts on the purchase of farm equipment, services and supplies, and longer-term impacts on the development of commercial markets for agricultural products.

ASSESSMENT

Canada has a vital role to play in the development of world agriculture, as a supplier of food to developing nations and as a source of expertise to assist in the development of agricultural economies in developing countries.

Efficient use of food aid and development expertise must be coordinated at the national level.

One of the major areas where Canada can have an impact and make a significant contribution to develop world economies is in the area of Agriculture.

OPTIONS

The study team recommends to the Task Force that the program be maintained.

SHOWCASE HERDS

OBJECTIVE

To stimulate export sales of livestock through the maintenance of demonstration herds of livestock to illustrate Canadian standards in animal husbandry and production techniques.

AUTHORITY

Department of Agriculture Act.

EXPENDITURES ($ millions)

	83/84 Expenditures	84/85 Estimates	85/86 Estimates
Total	.7	.7	.5
Revenues	.1	.2	.2
Person-Years	16	18	16

DESCRIPTION

- Herds are maintained to show to foreign buyers.
- Tours are conducted by Agriculture Canada personnel.
- Complete production records are available for review by potential buyers of Canadian livestock.
- Focal point for visits of foreign agricultural officials.

BENEFICIARIES

Canadian livestock breeders.

OBSERVATIONS

Program has high profile in livestock industry. Showcase herds are focal point for discussions with potential livestock buyers.

ASSESSMENT

Program has contributed and will continue to contribute to sale of Canadian livestock to foreign buyers.

Privately owned herds are the eventual beneficiaries of the stimulated Canadian livestock sales.

Number of animals in herds have been reduced.

OPTIONS

The study team recommends to the Task Force that the program be maintained in its present form.

CANADIAN GRAIN COMMISSION

OBJECTIVE

To establish and maintain standards of quality for Canadian grain and oil seeds and regulate grain handling in Canada. To ensure a dependable commodity for domestic and export markets.

AUTHORITY

Canada Grain Act - 1912

RESOURCES ($ millions)

	83/84	84/85	85/86
Total	37.2	41.6	46.7
Revenues	36.6	34.1	40.0
Person-Years	869	910	930

DESCRIPTION

Grain Inspection and Grading, managed from Winnipeg is provided at 22 Canadian ports and 4 interior locations. Functions include the establishment of quality standards, sampling, grading and quality authentication, providing quality guarantee to buyers and sellers and offering arbitration process to producers. It requires 425 PYs and $19.5 million expenditures; there is $18,4 million in cost recovery - 95 per cent of cost.

Grain Weighing provides services to 8 Canadian locations, mainly export. The activities performed are elevator scale supervision, scale equipment checks, grain inventory audit and training. It requires 245 PYs and $10,3 million expenditures; there is $12.5 million in cost recovery - 120 per cent of cost in 1984/85.

Economics and Statistics provides economic research and statistical support to the Canadian Grain Commission and the grain industry. It provides regulatory controls over the licensing and operation of the industry, and provides grain documentation services to the terminal elevator industry, recommends elevator fees and regulatory fees and bonding of grain elevators and dealers. It requires - 100 Pys and $4,1 million expenditures; there is $3,2 million in cost recovery - 79 per cent of cost.

Grain Testing and Technical Advice provides information to the Canadian Grain Commission on the end-use quality of Canadian grains and oilseeds in support of quality control and marketing. It ensures the quality of the grain leaving terminal and transfer elevators. It assists Agriculture Canada in identifying varieties which may become eligible for top grade registration. The main ongoing function is supportive to the grain inspection operation. Other functions include grain testing for contamination with harmful levels of toxic substances. It requires 97 PYs and $5.2 million expenditures; there is no cost recovery.

Administration provides policy direction, executive management and administrative support to all activities of the Canadian Grain Commission. It requires 43 PYs $2,5 million expenditures; there is 100 per cent planned cost recovery via the actual services rendered to outside clients.

The 5 functional areas comprise the operational units of the Canadian Grain Commission. The commission itself is made up of 3 appointed commissioners, one designated chief commissioner. Operations are headed by the Executive Director.

BENEFICIARIES

Grain producers who are assured of a sound grading system and can get confirmation of the grade of their deliveries in the event of any dispute.

Foreign grain buyers who are assured of reliable grading and measurement of all shipments from Canada.

Canadian grain traders who are assured of the accurate grading and measurement of all shipments.

OBSERVATIONS

Much of the activity of the commission is supportive of the export of grains and the marketing activities of the Canadian Wheat Board. The CGC has been criticized as being unduly conservative in retaining existing grades and the visible distinguishability criteria for varieties. On the other hand, the stability and reliability of Canada's grading system has been an important asset to the CWB in marketing grain in export markets.

Seasonal peaks in shipments, size of the crop from year to year, preferred shipping points, and shifting customer base all create major changes in the CGC staffing needs and location.

Cost recovery has been instituted in many areas to achieve a relatively high ratio of revenue to expenditures. The CGC plans its fee structure for 100 per cent cost recovery including administration, but exluding the grain testing and technical services element.

The pooling of work i.e. weighers doing inspection work and inspectors doing weighing at the eight export terminals where both are stationed, is planned for eastern Canadian locations. In principle, some inspection (i.e. quality assurance) and weighing could be privatized but would require monitoring and auditing by CGC to assure adherance to standards and protection of Canadian export reputation. Privatizing would likely result overall in more cost to the grain system.

The CGC approves the rates for country elevator fees and it licenses these elevators. The CGC also participates in the allocation of producer grain cars.

The Commission is primarily a western Canada organization. Its mandate is national but it operates in eastern Canada usually on a request basis. Provincial organizations provide some regulatory functions.

ASSESSMENT

The primary functional responsibilities of the commission, that is the inspection, grading and weighing of grains is critical to Canada's grain export business.

The operating functions of the commission seem to be managed smoothly with major cost recovery for services rendered. The net cost to the government is low.

Regional locations, multiple functions (weighing and inspection) and seasonal fluctuation in work load require skillful management of the field force (670 PYs out of a total of 910 PYs).

CGC is a technical agency which functions well in its operational role.

The customer base of producers, elevators and grain dealers are satisfied with CGC services and have accepted the charges for the service. There appear to be additional opportunities to move to full cost recovery for all functions, including the overhead support in the testing and technical service area.

It would likely be prudent for an organization operating on full cost recovery to maintain an advisory council, comprised of users of the service, to help the organization stay in touch with its clientele.

Currently, the regulatory controls for which the commission is responsible include the bonding of grain dealers. This does not appear to be a function that the commission is equipped to handle nor one that belongs in its area of expertise.

OPTIONS

The study team recommends to the Task Force that the government consider proceeding with full cost recovery for the whole agency including the function of testing and technical service. A Canadian Grain Commission Revolving Fund would be established to facilitate setting fees to recover 100 per cent, including overhead; the CGC should set fees from year to year to take account of the surplus or deficit position of the Fund.

WESTERN GRAIN TRANSPORT*
(Canadian Transport Commission)

OBJECTIVE

Provides for a transportation system which is to:

- get prairie grains to market efficiently and on time, and
- gradually modify the historic Crow rates toward market-determined rates in a manner leading to minimal market distortion for "non-Crow" grains and livestock production.

* includes the Western Grain Transportation Act and related programs.

BACKGROUND

As part of the 1897 Crowsnest Pass Act, the CPR (and later CN) agreed to transport prairie grains, oilseeds and some related products to Vancouver and Thunder Bay at a statutory fixed rate. Notwithstanding over 80 years of technology and inflation, those rates remained largely unchanged until promulgation of the 1983 Western Grain Transportation Act. The 1897 rates worked reasonably well until the mid sixties. With persistent losses CN and CP allowed their grain rolling stock and least economic branch lines to deteriorate. Accordingly, capacity to get prairie grain to ports was reduced and sales were lost. Because of the historic nature of the Crow Rate, stop-gap measures of providing rolling stock, rehabilitating branch lines, and providing a subsidy on uneconomic branch lines were undertaken by the federal government. Because of the rapid and likely continued growth in the railway losses despite these ad hoc programs, the 1983 Western Grain Transportation Act was "negotiated".

AUTHORITY

Western Grains Transportation Act, 1983.

RESOURCES **($ millions)**

	82/83	83/84	84/85	85/86	86/87
Expenditure					
Transport subsidy	*	*	578.2	654.0	685.5
Branch Line Rehab.	84.7	93.2	132.9	99.8	86.3
Hopper Cars: Purchase	80.7	88.2	161.0	.0	.0
Hopper Cars: Leasing	18.3	17.0	20.6	17.2	17.2
TOTAL	183.7	198.4	892.7	771.0	789.0
Person-Years	7	7	20	22	22

* While there are no directly comparable estimates of subsidy prior to WGTA, the subsidy on uneconomic branch lines covered roughly one-half of railway losses in 1981/82.

OPERATIONS AND EFFECTS

Provides for a "permanent" minimum subsidy, ($660 millions annually) to transport all prairie grains to Thunder Bay and prairie grains for export to Vancouver, Prince Rupert, and Churchill. Currently the subsidy is paid directly to railways, but this is under review.

Provides for staged increases in freight rates paid by farmers until minimum subsidy level is reached.

Provides hopper cars (13,120) to haul grain, with leases to the year 2005 on 2,000 additional cars.

The final rehabilitation agreement provides railways with funds to rehabilitate prairie branchline system (3,200 miles) with this component said to be "sunsetted" in 1990. 2100 miles done, 700 to be completed by 1990 for $520 million, and $51.3 million reserve. In total, 5,570 miles will have been rehabilitated at a cost of $1.05 billion.

Canola oil and meal receives transport rate reduction (minimum compensatory rate) for movement east of Thunder Bay. Although not part of the Crow adjustment, this was considered for elimination with the enactment of WGTA, but rejected.

Low transport rate for prairie grains led (and with subsidies paid to railways leads) to artificially high farm

gate prices. This in turn led, at least to the degree farmers respond to price signals, to production imbalances between export grains and other crops and livestock in the west. Gradual increase in freight rates paid to meet actual cost levels have begun to remove these distortions.

There were no major problems with moving grain to market for last two years, due to smaller crops and no west coast port strikes. Agriculture Canada argues that absence of problems was due as well to lower movements of non-agricultural products during this period. However, it is too soon to assess whether efficiency is improving or will improve under WGTA, although there is some evidence railways are using the additional revenue to improve the rail transportation network.

BENEFICIARIES

Western grain producers benefit from subsidized transport of their products, especially since commodity prices are set by world markets, not Canadian demand/supply factors.

Because of the current method of payment of government funds and a confusion of market signals which would tend to increased efficiency, the WGTA may ultimately lead to higher than necessary costs for the movement of export grain, reducing incomes of western grain producers.

Railways have benefited by the resolution of the Crow Rate impasse. The specifics of the deal (payment to the railways) has an additional benefit in terms of bias towards rail in comparison with trucking.

ASSESSMENT

Overall: While WGTA as currently operated represents a major improvement over the Crow-regime, there are two major issues. First, the limitations on improving efficiency in moving grain from farmgate to port represents a substantial potential loss of net farm income from grain exports. Second, the magnitude and method of payment of the continuing subsidy has a distorting effect on production and marketing decisions of farmers, as well as on asset values in agriculture.

Continuing $660 million subsidy: There is no economic rationale for this susbidy. It exists as an "acquired

right" to compensate for termination of the Crow rates. On a 30 million tonnes export crop, this subsidy amounts to over $20 a tonne or roughly 10 per cent of port price.

Payment of subsidy: Because the subsidy is paid to railways, the transportation costs faced by producers continue to be understated. This causes inappropriate farm production and transportation decisions.

Provision of Hopper Cars: The WGTA says the Minister of Transport is responsible for ensuring that there is an adequate supply of hopper cars. This provision appears to have led some people in the industry to conclude that the federal government is responsible for providing replacement or new cars. Accordingly, there are differences of opinion on possible future costs to the federal government for hopper cars maintenance and replacement.

Hopper Car Allocation: The procedure is only partially addressed in WGTA. Actual practice places control principally in the Canadian Wheat Board resulting in substantial control of export grain handling and marketing procedures. This causes frustration and provides a blockage to the enhancement of grain transportation efficiencies.

Railway Compensation and Branch Lines: The present approach tends to retain present branch lines and to a degree makes the placing of elevators on those lines inflexible. With "cost-pass-through" compensation to the railways, they have little motivation to reduce cost, yet only they, under present procedures, can initiate the elimination of a branch line. CWB practices for alloting hopper cars reduces, in the view of elevator companies, the desirability of closing inefficient elevators. Moreover, the pattern of setting transportation rates at particular elevators, does not reflect actual transport costs on branch lines. Accordingly, farmers, in chosing an elevator, do not face the actual cost of grain handling on inefficient branch lines. In the view of some experts, branch line retention is the single biggest impediment to increasing grain handling efficiency. Without making actual costs apparent, it is very difficult to argue for closing lines.

Improved Transportation Efficiency: There is substantial doubt that the combination of cost-pass-through railway compensation and railway performance targets administered by GTA will attain the efficiency objective.

Canola oil: There is no obvious need for minimum compensatory rates for Canola oil, since it already receives WGTA support to Thunder Bay so as to be treated equivalently to Canola oilseed. (Note that this is not a draw on the CRF, but it does provide a target for soybean producers and others to demand equitable treatment).

The Grain Transportation Agency has two major tasks, one related to allocation of cars and the other to grain movement efficiency. It is doubtful that it will play a major role in either of these tasks. It is seen, however, as providing useful support to the Senior Grain Transportation Committee.

The WGTA legislation is new, broadly accepted as a major improvement and contains provisions for review. However, two broad issues should be addressed in these reviews: (a) the distortion of farms production and marketing decisions due to the transportation subsidy; and (b) the efficiency of moving grain from farmgate to port.

OPTIONS

The study team recommends to the Task Force that in its comprehensive review of western grain transport during 1985/86 the government consider the following important issues concerning the effect of the Western Grain Transportation Act on encouraging efficiency:

- Hopper car ownership: Selling hopper cars owned by the government to the railways would obviate the need for complex management agreements, provide for this cost to be included in CTC's calculation of compensatory rates. This should make them more reflective of full cost, and eliminate debate concerning the provision of hopper cars by the government. Leased cars should be treated similarly.

- Elimination/retention of branch lines: With pricing not responsive to variable costs on each line, there is limited market guidance on elimination/retention of branch lines. Variable pricing options should be investigated.

- Car allocation: The combination of procedures for allocations of cars and delivery quotas appears to encourage retention of inefficient car turnaround times.

- Transportation pricing: Compensation procedures for western grain should be re-examined in light of Justice Hall's report.

It is also recommended that the government consider:

- Eliminating the minimum compensatory rate for canola oil and meal moving east of Thunder Bay, although not a draw on the treasury.

- Reviewing the continuing need for the Grain Transportation Agency, under its current mandate, either as part of the 1985/86 comprehensive review or separately.

LAND AND WATER RESEARCH
(Environment Canada)

OBJECTIVE

Environment Canada's Inland Waters and Lands programs contribute to soil and water conservation and wise use through monitoring and research and through joint funding with provinces of water management infrastructure such as flood control works. Results from some of the research is useful to managing the agriculture sector.

AUTHORITY

Canada Waters Act, 1970 for water and no specific legislation for land.

RESOURCES ($ millions)

	84/85	85/86	86/87
Expenditures	40.3	42.0	44.7
Person-years	553	575	594

ACTIVITIES/EFFECTS

The Inland Waters Directorate, through federal-provincial cost-shared agreements, maintains computerized data bases for both water quantity and water quality. There are 2,824 water quantity measuring stations. Such information is used for interprovincial allocation decisions and for mapping flood plains, areas on which the federal government will not support development.

By 1987, there will be an equivalent network of approximately 2,500 water quality monitoring stations, requiring roughly 40 additional staff. Such information is used principally for Canada-U.S. boundary agreements and monitoring water quality degradation such as caused by acid rain.

This program, together with Atmospheric Environment Service's information on precipitation, provides Agriculture Canada with most of the water information it uses.

The Inland Waters Directorate is responsible for a number of water management activities. There are international agreements on the Great Lakes, the Lake of the Woods, and the Mississippi and Red River basins on the prairies, and the Columbia Basin in B.C. There are inter-provincial agreements, such as the Prairies Provinces Water Board and the Ottawa River Water Quality Coordinating Committee. The principal agreement affecting agriculture is operated by the Prairie Provinces Water Board, which includes representatives from the three provinces and the Prairie Farm Rehabilitation Administration and is chaired by an Environment Canada official. Finally, there are agreements with individual provinces for implementation of water planning recommendations which were derived from earlier federal-provincial studies.

Water research is carried out in the National Water Research Institute in Burlington and the National Hydrology Research Institute to be concentrated in Saskatoon. This research is not directed particularly at agricultural use of water. However, research on ground water, and effects on water quality of agricultural irrigation, pesticides and herbicides, is part of the program and its results are used by Agriculture Canada.

The Lands Directorate (declining from 140 staff in 1976 to the present level of 75) maintains the Canada Land Inventory, which classifies the capacity of much of Canada's agriculture, forestry, recreational and wildlife land. This data is only of marginal value to Agriculture Canada. Most of the land information used by Agriculture Canada is collected by the Land Resources Research Institute (LRRI) within Agriculture Canada's Research Branch and covers soil chemistry, physics and certain biological factors.

ASSESSMENT

The water quantity monitoring and weather service activities of Environment Canada are valuable and used by Agriculture Canada. There have been demands for enhanced information, particularly from the Atmospheric Environment Service. This review can not assess the merits of those requests nor assess the value of present information to Agriculture Canada.

The flood control portion of the Inland Water Directorate's activities (1984/85 contributions of $23 million) is mainly directed at urban areas (e.g. Red River

Ring Dyking). It also supports agricultural resource management, under federal-provincial agreements, (e.g. Fraser Valley) where control of flooding solves an agricultural problem.

The Prairies Provinces Water Board (essentially an inter-provincial institution) is a valuable institution for dealing with water allocation issues. An extension by the three provincial governments of its mandate to deal with quality, demand management and inter-basin supply management issues would enhance its value. Such an enhancement could give direction to PFRA water activities and could address federal concerns with maintaining the agricultural resource base in the prairies.

The water portion of this program, although much of it is valuable to agriculture, could not be supported at its present level solely by this contribution. The land portion provides only minimal support to agriculture.

No major decision on this program should be made based solely on this review. (The study team on Environment Canada programs and the inquiry on Federal Water Policy will provide more thorough reviews of this program).

OPTIONS

The study team recommends to the Task Force that the government consider the potential of enhancing the role of the Prairie Provinces Water Board to include within its mandate additional matters, such as

water quality,
water demand management, and
inter-basin water supply management

subsequent to the report of the inquiry of Federal Water Policy. This examination should be integrated with decisions on PFRA.

PRAIRIE FARM REHABILITATION ADMINISTRATION

OBJECTIVE/BACKGROUND

This program was initiated in 1935 to respond to the critical soil erosion and drought problems in the prairies.

Its current objective is twofold:

a. to rehabilitate drought-damaged soils,and
b. to encourage farming practices which protect against further degradation associated with drought and soil erosion.

This program has been used from time to time to deliver ad hoc programs involving water in the prairies.

RESOURCES **($ millions)**

	82/83	83/84	84/85	85/86	86/87
Water projects:					
Expenditure	25.5	23.3	33.5	41.6	32.0
Person-Years	378	373	377	367	367
Tree Seedings:					
Expenditure	2.3	2.5	2.4	2.9	3.0
Person-Years	67	68	66	68	68
Community Pastures:					
Expenditure	10.4	11.5	12.7	14.1	14.8
Revenue	8.4	9.0	8.5	9.3	9.9
Person-Years	211	212	209	205	205
PFRA Total (incl. Admin):					
Expenditures	47.9	48.2	60.1	71.1	61.9
Person-Years	864	876	881	879	879

AUTHORITY

Prairie Farm Rehabilitation Act

PFRA operates in an area considered to be within provincial jurisdiction. Although not required, each of the three provincial governments has enabling acts to provide for such federal involvement.

DESCRIPTION

Small water projects: Supplies technical advice and financial assistance to individuals, groups, communities, towns (less than 300) and Indian bands to develop small scale water supplies ... wells, dugouts, on-farm irrigation. Financial assistance varies from a small share for on-farm irrigation to 50 per cent of the capital costs of town water supplies.

Big water projects: Manages some larger scale projects such as the south-eastern Saskatchewan water and irrigation project and maintains certain of the South Saskatchewan Dam-Lake Diefenbaker works, on which PFRA partially recovers its costs from the province of Saskatchewan. The capital costs of such projects are usually funded outside of PFRA appropriations. PFRA's role is limited to being the implementing organization.

Soil conservation: PFRA's principal conservation role is the management of 927,000 hectares of marginal lands removed from cultivation. These lands, principally those subject to severe erosion during the 30's, are now permanently seeded to grass and serve as community livestock pastures managed on a partial cost-recovery basis.

Carries out a number of minor soil conservation activities, such a provision of tree seedlings free of charge, conduct of demonstration activities at their Outlook, Saskatchewan demonstration farm (and the planned Manitoba farm) and maintains an up-to-date awareness of prairie soil and water conditions.

ASSESSMENT

It is the view of the study team that this program is an anachronism, albeit one with a glorious past and one which remains quite popular. It also is seen by some westerners as a potentially vital ingredient in sustaining prairie agricultural production capacity.

The need for further federal involvement in small water projects, while said to be related to drought-proofing the prairies, is not an important part of the solution. Accordingly, there is no rationale for continued federal involvement in this area.

The technical expertise provided by PFRA on major irrigation projects could be absorbed and provided by provinces or by private sector consultants.

The retention of the marginal lands, principally areas subject to severe wind erosion during the 1930s, in grass should continue. Use of these grasslands as community pastures appears to be their best use. While the pastures could be retained by the federal government, they should be operated by provinces, or private associations or firms so long as the conservation role is assured.

The provision of tree seedlings, free or otherwise, is not central to federal involvement in soil conservation or drought proofing; accordingly it should be phased out.

It is clear that soil conservation is a serious and growing problem and that the supply of water for agricultural purposes is becoming critical on the prairies. As well there is growing support for preservation of wetlands and wildlife and forest usage of marginal farmland. These are areas that PFRA is linked to but not directly mandated to do. The Prime Minister's proposal in Saskatoon in August has and the forthcoming inquiry on Federal Water Policy likely will have proposals dealing with these issues. A renewed PFRA could be part of the solution to these problems.

OPTIONS

The study team recommends to the Task Force that the government consider phasing out this program as presently constituted by end of 1986.

The study team further recommends that:

- A core of agricultural/large water works expertise, existing in PFRA, be maintained. Resource levels would likely not exceed 150 person-years. Substantial cost recovery be possible.

- The government enter into negotiations with provinces and/or local community associations to divest the Government of community pastures, while safeguarding the land use for pasture.

- The government enter into negotiations with provincial or private interests to divest the tree seedling operation.

- Depending on the Report of the Inquiry on Federal Water Policy, the government, through negotiations with provincial governments, consider a conservation and soil rehabilitation operational initiative, which may involve some of the water planning and operations expertise from the phased out PFRA.

If it is not appropriate or possible for such a joint federal/provincial operational initiative to be established the government should invite the provinces to expand their programs and give priority to hiring PFRA field staff.

LIVESTOCK GENETIC IMPROVEMENT
(Agriculture Canada)

OBJECTIVE

To increase the productive efficiency of the national livestock herds and therefore to a) increase returns to efficient producers, b) produce internationally competitive livestock products and c) increase international demand for Canadian breeding stock.

AUTHORITY

Department of Agriculture Act.
Livestock Pedigree Act.

RESOURCES ($ millions)

	83/84 Expenditures	84/85 Estimates	85/86 Estimates
Salaries and Wages	8,238	8,673	9,978
Other O&M	2,678	2,814	3,468
Grants and Contributions	304	-	0
Capital	945	253	334
TOTAL	12,165	11,740	13,780
Revenues	2,280	2,978	5,314
Person-Years	332	332	336

DESCRIPTION

Record of Performance (ROP): data collection and analysis programs for dairy, beef, sheep and swine to facilitate improvements in production efficiency and product quality through identification of genetically superior breeding stock.

Sire Loan Program: to provide high quality tested sires to assist in the development of artificial insemination (AI) technology in swine and sheep.

Livestock registration provides authentication for the purebed registration system in Canada to strengthen foreign and domestic sales capabilities.

BENEFICIARIES

ROP dairy open to purebred herds only under the federal program - 25 per cent of purebred herds participate (4,556 herds out of 17,916 total).

ROP beef open to beef cattle producers - purebred and commercial. Established 1956.

ROP swine open to all swine producers - currently 98 per cent of purebred herds and 2 per cent of commercial herds are enrolled. (478 herds on the program).

ROP sheep open to all sheep producers - currently 56 per cent (762 flocks) of purebred flocks are enrolled and 10 per cent of total Canadian sheep. Established 1976.

SIRE loan ownership and loan to AI breeding boars and rams for swine and sheep producers.

OBSERVATIONS

Provincial governments and breed associations also conduct production monitoring programs.

It is maintained that there is no overlap in programs, but there are some duplicate support structures.

Membership in the largest program (Dairy ROP) represents only 25 per cent of the purebred herds.

ROP dairy in federal program deals with elite of dairy industry and does not impact the total national herd significantly.

The Auditor General has observed in 1982 that "After 77 years only 13 per cent of the dairy cattle in Canada are included in the program".

In the case of all ROP programs, the producer benefits from the increased production and/or the premium price for breeding stock as a result of ROP membership.

Over half of total genetic improvement expenditure is on dairy - 80 per cent of dairy is ROP.

Authentication of production records by federal government authority is of prime importance in export livestock trade.

Livestock registration consists of three person-years to audit and affix official seals to registration certificates in the Canadian National Livestock Records (CNLSR) Office.

Agriculture Canada has recently submitted for approval a program to substantially increase the cost recovery on all ROP programs.

ASSESSMENT

ROP programs in dairy, beef, swine and sheep try to improve production efficiency through production records and improve breed quality through genetics.

The financial benefits of these improvements accrue to the herd operator through increased sales of production and/or breeding stock.

Federal certification of records is critical to the reputation of breeding stock sales, particularly in export markets.

Provincial governments and breed associations have experience.

Livestock registration consists of only three person-years and helps the export certification.

The SIRE Loan Program is a valuable part of genetic improvement in swine and sheep.

OPTIONS

The study team recommends to the Task Force that the government consider:

- transferring ROP data collection and field personnel responsibilities to provinces and/or breed associations;
- setting up a system to allow Agriculture Canada to capture consolidated data necessary to fill export certification responsibility;

- providing within current expenditure levels, transition funding to assist provinces and/or breed associations to establish programs;
- eliminating federal funding through scheduled annual reductions over no more than four years;
- implementing currently recommended cost recovery proposals;
- retaining livestock registration function; and
- continuing to support SIRE Loan Program.

GENETIC IMPROVEMENT PROGRAM
ROP COMPONENT

	HEADQUARTERS STAFF (RD & IA)		FIELD STAFF (FP & I)		TOTAL	
	Current	**After Phased Change**	**Current**	**After Phased Change**	**Current**	**After Phased Change**
PYs						
Dairy ROP	26	30	254	0	280	30
Beef ROP	4	4	7	0	11	4
Swine ROP	5	5	30	0	35	5
Sheep ROP	3	3	3	0	6	3
TOTAL	38	42	294	0	332	42
EXP. ($000)	Est. 1,500	1,660	Est. 9,000	0	Est. 10,660	1,660
Current Cost Recovery					2,978	
Net Expenditure					7,689	1,660
Net Reduction					$6,022 AND 294 PYs	

PRODUCTION DEVELOPMENT ASSISTANCE INITIATIVE
(Agriculture Canada)

OBJECTIVE

To assist in the development and training of rural Canadian youth. To provide funding for programs which encourage improved techniques in the raising of livestock and field crops and support the development of technically qualified and business oriented potential replacement farmers.

AUTHORITY

Department of Agriculture Act.

EXPENDITURES **($ millions)**

	83/84 Expenditures	84/85 Estimates	85/86 Estimates
Salaries and Wages	.4	.5	.5
Other O & M	.2	.2	.2
Grants/Contributions	3.	3.3	3.0
TOTAL	3.7	3.9	3.7
Person-Years	11.5	12	12

DESCRIPTION

Financial assistance provided to 213 agricultural fairs and exhibitions.

Fairs and exhibitions sponsor livestock competitions. Funds provided support partially the costs of competition prize money and the expenses of qualified judges.

Financial assistance is provided for the development of 4H programs for rural youth. Provide financial assistance to the 4H Council national organization.

Help finance small breed livestock associations.

Provide financial assistance to Federated Women's Institute and Canadian Plowman's Association.

BENEFICIARIES

Livestock exhibitors at fairs and exhibitions.

Fair and exhibition associations.

Rural youth involved in 4H programs.

Rural women.

OBSERVATIONS

Fair and exhibition support is widespread across the country.

Federal government support of 4H program is critical to the Canadian 4H movement.

ASSESSMENT

Livestock competitions encourage improved techniques in livestock production.

Since local agricultural fairs associations must match on a 1 to 1 basis the federal funds for prizes, there is a multiplier effect on federal funding.

There are also provincial support programs for some of these groups. Some of the federal programs may be considered as being overlaps from the provincial point of view.

OPTIONS

No changes are suggested in existing program components at this time. However, there may be scope for the government to consider cutting back or cutting out some of these items as part of federal-provincial negotiations on streamlining and reducing overlaps.

INSPECTION AND REGULATIONS PROGRAMS
FOOD INSPECTION

The Canadian Food Inspection system is characterized by multi-department responsibilities overlayed on the multi-levels of the Agri-Food chain. This approach is similar to that of the United States and in contrast to that of Sweden, where a single inspection agency format is used.

Directly or through delegation, five departments play a role in the Federal Food Inspection system:

Agriculture Canada (Agr)
Fisheries and Oceans (F&O)
Health and Welfare Canada (HWC)
Consumer and Corporate Affairs (CCA) - since 1969
Revenue Canada - Customs and Excise (RC-CE)

The participating departments perform the following functions:

Health Hazards
- Agriculture Canada - animal diseases and wholesomeness;
- Health and Welfare Canada - chemical residues/ additives and/or microbial hazards;

Quality
- Agriculture Canada - grade;
- Agriculture Canada, Consumer and Corporate Affairs, Revenue Canada (import) - product representation and disclosure;

Food Safety
- Agriculture Canada, Health and Welfare Canada - processing and storage of food.

Until the Seventies, Federal food inspection programs were deemed to benefit all Canadians and were provided at a cost to general revenues. The services were deemed to benefit all Canadians. In the late Seventies, the government targeted selected services for cost-recovery. Agriculture Canada elaborated principles to classify services where full, partial or no cost recovery was justified:

- Full cost recovery - where activities or services are performed for an identifiable individual or group receiving direct or specific benefits to which a market price can be attached". (Example: import/export certification for quality, grading, premises certification/registration, services on request).

- "Partial cost recovery - where activities or services are performed not only for an identifiable individual or group, but also for the Department". (Example: import/export certification for health hazards, laboratory testing, stock improvement programs).

"Cost recovery is not justified where activities or services are performed to protect the interests of the producer or consumer or substantially benefit some national objectives". (Example: inspection for health hazards, verification of application of Canada Grade Standards, investigations, disease eradication programs.)

Applying these principles, Agriculture Canada plans to cost recover up to about 20 per cent of the cost of the food production and food inspection program. These principles have been applied fairly uniformly to Agriculture Canada programs, but not necessarily to the other four departments programs.

The Agriculture study team was asked to recommend whether a specific indepth review should be undertaken.

Concerns

Before 1969, Agriculture Canada and Fisheries and Oceans were responsible for food inspection from producer to consumer. After 1969, Consumer and Corporate Affairs became responsible for the retail and consumer levels. The working relationships between Agriculture Canada and Health and Welfare Canada have tended to be well defined. However, Consumer and Corporate Affairs' activities have tended to overlap those of Agriculture Canada at the manufacture level. This, in turn, has led to criticism of the CCA role by industry and to the proposal for a single food inspection agency (1970 to 1979) which distracted attention from basic issues.

The private sector considers that "duplication" exists when multiple inspectors inspect the same or similar processes, in the same plant. The Grocery Products Manufacturers of Canada (GPMC) have observed on such examples of "duplication" as: CCA Consumer Products and Weights and Measures inspectors checking net weight of packages; HWC Health Protection Branch and the local medical officers of health checking plant sanitation and food safety; and CCA Consumer Products inspecting food processing lines and labelling and packaging provisions in Agriculture Canada registered plants.

GPMC and the Canadian Food Processors Association both conclude, and we concur, that inspection activities should be emphasized at the manufacturer, distributor and import levels; and CCA enforcement responsibility should be limited to the retail level.

There is a problem of achieving 100 per cent assurance of health hazard risk and determining the resource levels appropriate to the risk. Health hazard avoidance seems to leave little or no room for judgement in defining food inspection risks and resources. Moreover, about 80 per cent of the Agriculture resources are found in the health hazard function.

If there is a consensus that there is little or no discretion in this component, then there should be an agreement on performance standards and resourcing formula. If not, the determination of acceptable risk and appropriate resources should be decided in a broader forum of discussion than represented by a single department or agency.

Industry agrees that food inspection belongs in the federal domain. Their position stems from concerns about different standards, the potential for balkanization and a simple preference for dealing with the federal food inspection system.

However, there are some areas of duplication (or overlap) between the federal and provincial levels e.g. inspection of hatcheries. The opportunity here, and an emerging principle, is that if another level of government provides the same service or activity, at a national standard, the federal program should not duplicate (or overlap) the other. The administration of standards should be pushed down to the provinces, and duplication eliminated.

In the food inspection system, only Agriculture Canada and Fisheries and Oceans have cost recovery objectives. In 1985/86, Agriculture Canada plans to recover about $15 million (14.1%) of a $106 million budget. Fisheries and Oceans plan to recover about $2 million (8.6%) of a $23 million budget. In general, Agriculture Canada is cost recovering for quality and safety assurance functions; and is not cost recovering for health hazards assurances. Fisheries is cost recovering for import certification and import licensing.

There is no incentive for departments to deregulate i.e. to promote industry self-regulation. In fact, there is an unintended incentive to maintain systems e.g. feeds registration (a quality assurance function) and to cost recover. Industry or sector self-reliance may be a desirable objective, the achievement of which would be elusive under existing circumstances. In considering cost recovery options, departments should first consider cost reduction options e.g. deregulation or industry self regulation, and should provide quality assurance services only when industry cannot provide its own services in support of self-regulation. While it is recognized that only a few companies may qualify for self-regulation, this is a desirable direction to move in.

OPTIONS

Overlaps in the responsibilities of Federal departments have persisted since 1960. In view of this situation, the study team recommends to the Task Force that the government consider that the most enduring food inspection model would divide responsibilities for food inspection as follows:

- Agriculture Canada, Fisheries and Oceans, and Health and Welfare Canada responsible for food inspection for health hazards, quality and safety assurance at the manufacture, distribution and import level;

- Consumer and Corporate Affairs responsible for quality assurance at retail level, where enforcement activity does not duplicate activity already performed, or which could be performed more economically, at the manufacture, distribution or import level.

The division of responsibility for food inspection should be confirmed, in the study team's opinion.

Agriculture Canada, Fisheries and Oceans and Health and Welfare Canada determine health and quality standards and translate these into levels of service for inspection. These levels of service are regularly challenged by Treasury Board as they relate to resources and by industry as they relate to productivity. The study team believes that these departments should not bear the whole responsibility to determine what standards (and risks) are acceptable to Canadians. It is therefore suggested that the government consider establishing an "advisory body" composed of a mixed group of government experts and private sector citizens to advise and recommend on acceptable risk factors so that food inspection programs can then be designed to match these acceptable standards.

Improvements could be made, where there is duplication in federal-provincial inspection services. The practice would be that where duplication or overlap exists, the federal level should negotiate the delivery of inspection services by the Provinces where such meet national standards.

Cost recovery of eligible services would follow the principles outlined above. In applying these however, recovery would be the same for all commodities, there should be consistency among departments in the same sector, and exceptions should be made where the margins of the industry cannot support relatively expensive inspection.

Finally, cost reduction, i.e. deregulation or industry self-regulation, is a preferred alternative and should be considered before cost recovery is implemented.

CONSUMER PRODUCTS
(Consumer and Corporate Affairs)

OBJECTIVE

To identify, control and prevent product misrepresentation in the marketplace and to ensure adequate product information is available to facilitate effective consumer choice.

In exercizing its mandate, the Consumer Products program directs its attention to the packaging, labelling, quality, quantity, composition and advertisement of food and non-food consumer goods.

AUTHORITY

Consumer Packaging and Labelling Act
Textile Labelling Act
Precious Metals Markings Act
National Trade Mark and True Labelling Act and;
Food and Drugs Act (HWC)
Canadian Agricultural Products Standards (CAPS) Act (AGR)
Fisheries Inspection Act (DFO)
Various (21) Provincial Acts and Regulations

RESOURCES **($ millions)**

	82/83	83/84	84/85	85/86
Total	8.8	10.4	11.1	11.5
Revenues	(0.2)	(0.2)	(0.3)	(0.3)
Person-Years	278	275	275	275

DESCRIPTION

The Consumer Products program establishes and maintains regulations and voluntary guidelines applicable to foods, textiles, precious metals and pre-packaged non-food consumer items. It approves food advertisements for radio and television prior to airing, examines labels in relation to regulatory requirements and implements a compliance strategy directed to regulated products found at the manufacturing, import, wholesale and retail trade levels.

The program has exclusive responsibility for the development and administration of the Consumer Packaging and Labelling Act, the Textile Mark and True Labelling Act. Consumer Products is responsible for the administration of the Foods and Drugs Act provisions relating to economic fraud in food eg. packaging, labelling and advertising. Consumer Products is also responsible for administering the Agricultural Products Standards Act (AGR) and the Fish Inspection Act (DFO) at the retail level.

Responsibility for this legislation and inspection at all other trade levels rests with the respective parent departments. In addition, the requirements of 21 Provincial Acts and Regulations respecting the grading and sale of agricultural and fish products at the retail level are included in the program.

The branch enforces legislation and administers voluntary programs covering approximately 300 food and non-food consumer products involving 40,000 brands, the estimated annual consumption of which is valued at some $50 billion.

In addition to conducting approximately 40,000 trade level inspections, some 65,000 complaints and enquiries are handled each year, 15,000 advertisements for radio and television are pre-approved and 8,000 labels are examined for regulatory compliance.

The regulations and programs, while basically designed in the interest of protecting consumers, also contributed to fairness, equity and the orderly conduct of business and as such are of particular value to small business enterprises competing in the marketplace.

Consumer Products uses "generalist" inspectors. This reduces the number of inspectors and visits at the retail level. Formal agreements with the other involved federal departments and provincial governments clarifies the respective roles.

CCA estimated the dollar value of economic fraud to consumers resulting from detected non-compliance to be $2.3 billion in 1983/84. Food dollars at risk were estimated to be $1.3 billion or 56 per cent of this amount. Problem areas for quality included dairy (cheese), processed fruits and vegetables, and eggs. Labelling problems included fresh

fruits and vegetables and poultry. These commodities accounted for 40 per cent of the estimated food dollars at risk.

Alternative approaches to direct marketplace intervention such as through trader education and consumer information are also actively pursued.

BENEFICIARIES

Consumers of food products in Canada, who are assured that labels are informative and accurate, and that radio and T.V. advertisements do not misrespresent the products.

OBSERVATIONS

The Canadian Food Processors Association (CFPA) is concerned that some products may be inspected on the production line by Agriculture Canada while others, if inspected at all, are subject to inspection by Consumer and Corporate Affairs at the retail level. CFPA believes that the retail shelf is the wrong place to inspect packaged goods; that it is more efficient and economical to carry out domestic inspections in the plant and import inspections at ports of entry.

CCA inspectors conduct inspections in 501 of 2,579 Agriculture Canada registered plants. Commodities inspected include processed meat and poultry and their products, fresh and processed fruit and vegetables, and dairy products. CCA inspectors also have responsibility to inspect 3,098 non Agriculture Canada registered food processing plants.

Inspection of fresh fruits and vegetables at retail level is to be reduced in 1985-86 because consumers select quality product and CCA are interested primarily in misrepresentation of identity of produce.

In 1968, when responsibility for the inspection of agricultural food products, and for the enforcement of grades and standards, at the retail level was transferred to CCA, it was understood that Agriculture Canada would be responsible for the inspection and enforcement at all levels of manufacture and trade except the retail level.

When AC and CCA held meetings in 1982 and 1983 to set out criteria for a work sharing agreement that would lead to the elimination of the need for both departments to conduct

inspections in certain food manufacturing plants, the departments could not come to an agreement.

All provinces have agricultural legislation which established product grades and conditions for sale at the retail level. CCA inspectors inspect in all provinces except Ontario and Quebec and refer chronic problems to provincial authorities where court action is required.

Members of the Grocery Products Manufacturers of Canada have made numerous observations about the regulatory burden of advertising and labelling regulations. The industry, while not having developed a consensus, seems ready to consider alternatives such as self regulation or standards councils. This subject seems better suited to review from a regulatory perspective and should be considered by that review group.

ASSESSMENT

It is the view of the study team that the enforcement activities of CCA in Agriculture Canada registered plants are an overlap and should be eliminated. There are also non-Agriculture Canada Plants which CCA currently inspects. Responsibility for enforcement of regulations for grades and standards of agricultural products are clearly set out in memoranda of understanding (1970) where Agriculture Canada is responsible at the level of manufacture and trade, and Consumer and Corporate Affairs relates to the retail level. CCA also enforce provisions of the Food and Drug Act at the retail level. There is no provision in these memoranda for CCA to enforce at a level other than the retail level.

CCA estimate that their person years requirements on an activity basis as follows:

Activity		**Person-Years**
Headquarters		35.0
Direct time		138.0
inspection (food)	27.3	
(non food)	22.3	
enforcement	23.0	
inspection support	19.9	

Activity	Person-Years	
complaints (engineering)	9.5	
travel	21.4	
other	14.6	
Indirect time		66.9
training and development	16.5	
operational management	20.6	
operational support	29.8	
Other		35.1
TOTAL		275.0

The department could not provide an estimate of the total person years budgeted (including all direct and indirect time) for food inspection activities. However, of the net 27.3 person years food inspection, 13.0 person years are estimated to represent the allocation at the manufacturing level. This activity represents the apparent overlap with other departments.

Our estimate of the gross person years allocated to food inspection at the manufacturing level is based on the assumptions: that headquarters and indirect time (minus a proportion of training and development) is a base requirement for conducting CCA enforcement activities; and, that direct time (plus a proportion of training and development) is allocated to food and non-food activities on an equal basis. The result would be 40.4 person years. This amount would represent a saving at CCA. Agriculture Canada, on the other hand would provide increased coverage in facilities at the manufacturing level no longer covered by CCA. The increased coverage would be absorbed in part by existing resources but some coverage would require additional person year resources.

The provision of inspection services by CCA, as agents of provinces, suggests an opportunity for delegation of administrative responsibility to the provinces for these services or full cost recovery.

CCA estimate that the value of detected product misrepresentation was $1.27 billion in 1984-85. This amounted to 3 per cent of the dollar consumption of protected commodities. Food dollars represented almost half of this amount. CCA believes that if the number of

resources allocated to this program were increased, the result would be an increased rate of detection. CCA's view is that this level of enforcement represents the appropriate level of deterence to protect consumers from deliberate product misrepresentation.

Program objectives are considered to be valid. A long range strategy of increasing distributor and consumer education would prevent product misrepresentation through misunderstanding or misinterpretation of the regulations.

A persuasive case has been put forward by Canadian Food Processors Association for greater emphasis on food inspection and enforcement activity at the manufacture and distribution level and port of entry, rather than at the retail level. This would appear to be an efficient and potentially more effective approach. It would require greater involvement by Agriculture Canada.

OPTIONS

The study team recommends to the Task Force that the government consider eliminating overlap of federal food inspection by:

- Reaffirming Agriculture Canada's exclusive responsibility for food inspection and enforcement at all levels of manufacture and distribution except the retail level. This should include responsibility for the Consumer Packaging and Labelling Act and the provisions of the Food and Drug Act currently undertaken by Consumer and Corporate Affairs. This should be followed up by memoranda of understanding with both CCA and HWC.

- Reaffirming Consumer and Corporate Affairs responsibility for monitoring and enforcement of Food products at the retail level where this service/activity would not duplicate inspection at the manufacture and trade level. This should include the development of regulations under the Consumer Packaging and Labeling Act, monitoring and enforcement at the retail level for products not covered by Agriculture Canada, and truth in packaging and labelling of food products, and advertising of food products.

- Directing the Treasury Board Secretariat to determine and reassign the appropriate resources for food inspection and enforcement at the manufacture and trades level, from Consumer and Corporate Affairs to Agriculture Canada.

QUALITY ASSURANCE AND SAFETY OF FOOD
(Formerly AGC 214 - Market Maintenance)

OBJECTIVE

To enhance the marketability of food and agricultural products by ensuring their safety, wholesomeness, quality (grade) and accurate labelling.

The intended impacts of this program are:

- the prevention of the transmission of diseases to humans from contaminated food;
- proper grading, labelling, inspection, and certification of food and agricultural products;
- sanitary facilities for the processing and storage of food products which meet export certification and domestic registration standards; and
- stimulation of domestic demand and improved marketability in world markets.

AUTHORITY

Canadian Agricultural Products Standards Act (CAPS)
Meat Inspection Act and Regulations
Fruit, Vegetable and Honey Act
Food and Drugs Act (1953)
Consumer Packaging and Labelling Act (CCA 100)

RESOURCES **($ millions)**

	84/85		85/86	
	PYs	$	PYs	$
Poultry	156	6.1	143	7.0
Dairy	103	3.9	96	4.6
Fresh Fruits and Vegetables	214	7.6	121	9.6
Processed Fruits and Vegetables	61	2.2	66	3.0
Meat Hygiene	1,505	57.7	1549	67.6
Livestock	142	5.1	143	6.6
Laboratory Service	138	5.5	147	7.6
TOTAL	2,418	88.3	2,265	106.3

DESCRIPTION

This program is derived mostly from the Canadian Agricultural Products Standards Act (CAPS) and the Meat Inspection Act.

The food inspection activity involves:

- performing inspections on all animals and birds slaughtered to ensure no diseases are transmitted to humans;

- inspecting, monitoring and registering establishments/industrial facilities to ensure that the environment in which food products are produced, stored and transported meets the legislative requirements for construction and sanitation;

- grading livestock carcasses to provide a basis for orderly marketing practices and equitable producer settlements;

- monitoring the safety, wholesomeness, grade standards and accurate labelling for meats, dairy and poultry products, fresh and processed fruits and vegetables, honey, and maple products moving interprovincially or internationally (import/export); and,

- providing method development and diagnostic services with respect to plant quality, feed/fertilizer, pesticides, food safety and export testing in support of the activities described above.

Health and safety, economic risk, the Acts and Regulations and past performance of the industry are the factors which most determine level of service in food inspection. However, the department must inspect and monitor all exported and imported products in order to maintain our foreign markets and to protect Canadian consumers.

Two other federal departments (Health and Welfare Canada (HWC) and Consumer and Corporate Affairs (CCA)), have legislative responsibilities for food inspection. HWC is responsible for identifying and controlling dangers associated with nutritional quality of foods and microbiological and chemical hazards in the food supply. CCA is responsible for identifying, controlling and preventing

product misrepresentation in the marketplace and ensuring adequate product information is available to facilitate effective consumer choice.

The output from Canadian farms, and raw and semi-processed products from offshore sources provide the basic inputs for the food and beverage processing and manufacturing industry. With shipments of close to $25 billion in 1979 (16.7 per cent of all manufacturing shipments), this industry is Canada's largest secondary industry. Meat packing is the largest sub-sector ($7.4 billion), with dairy processing following close behind ($4.0 billion).

Exports of agricultural products are estimated at more than $10 billion annually; and in 1983, the agricultural trade surplus amounted to almost one-third of Canada's total trade balance. Exports of meat and of fresh and processed fruits and vegetables are estimated at almost $1.3 billion annually.

BENEFICIARIES

Producers, packers, distributors, and exporters of agricultural products; the food processing industry; and consumers.

OBSERVATIONS

Canada maintains a very high reputation for disease-free crops and livestock, and this is fundamental to maintaining and expanding trade. The continued export of agricultural and food products depends on foreign recognition of the quality of the regulatory system. Improved marketing leads to larger production and export volumes, which in turn require increased inspection activities to ensure that markets are maintained.

The inspection system operates from the application of a set of standards which define acceptable levels of risk to humans, animals and plants from health hazards, quality factors and safety considerations respecting the processing, storing, transporting and/or comsumption of agricultural commodities. Agriculture Canada and HWC determine product tolerances (levels of risk) based on common practice, multilateral and bilateral agreements and conventions.

The rate of monitoring compliance with standards is a function of the "risk" being measured i.e. health hazards, quality or safety. Health hazards are monitored on a 100 per cent sample basis. Quality and safety elements are monitored on a statistical sample basis. In the latter case, frequency of inspection level (FOIL) is a function of rate of compliance.

Market maintenance depends on the health, safety, and quality of agricultural and food commodities. The regulatory function of this program not only plays an essential role in helping Canada to remain competitive and to exploit its full production and trade potential, but it also supports the important regional, national, and international market thrust of the government.

Agriculture Canada considers that livestock grading is appropriately resourced and that it is achieving an acceptable standard of performance (Table 1). However, poultry, dairy, fresh and processed fruit and vegetables, and meat hygiene, are not achieving an acceptable standard of performance. (Note: This latter situation has already been recognized by Treasury Board for the meat hygiene program where an additional 35 PY's, of 81 PY's requested, have been allocated in 1985/86.)

The department is concerned that the reliability of this program is threatened, and has provided the following examples:

- Poultry and Poultry Products: There has been a shift in domestic production from frozen or dry egg products (requiring 20 per cent inspection) to liquid egg production (which requires 100 per cent inspection and which involves a higher risk due to contamination and spoilage) without a corresponding shift in resources; and self grading of eggs with monitoring by Agriculture Canada resulted in lower reliability of grades.

- Dairy: There has been a reduction in national panels for dairy grades, which has led to problems of uniformity between regions.

- Fresh and Processed Fruits and Vegetables: Only 80 per cent of destination inspections of fresh fruits and vegetables occur within the 24 hour standard, resulting in product deterioration and loss of value.

Only 33 per cent (372 of 1130) of processing plants were inspected in 1983/84; products out of compliance at the retail level, from registered processing plants rose from 4.5 per cent in 1977 to 31.5 per cent in 1982; and significant complaints were received from industry about lack of enforcement of regulations on imports.

- Meat Hygiene: A 92 per cent increase in export volumes in the five years to 1983/84 and a 300 per cent increase in additional inspection tasks has led to an increase in the number of delisted plants and in the rejection rates of shipments of meat. Shipments refused increased from 2 million pounds (.6 per cent) in 1982 to 3.6 million pounds (1.1 per cent) in 1983, and 5.8 million pounds (1.5 per cent) in 1984 - an increase of a factor of more than two times in three years.

The relationship between resources and estimated market value (Table 2) varies among commodities. The measures are both indicators of priorities i.e. support to important or weak commodity groups, and workload. An estimate of resource inputs ($'s) relative to market value for food inspection is:

	Per cent of market value
highest input:	
fresh fruits and vegetables	1.26%
high input:	
poultry and poultry products	0.87%
meat hygiene	0.78%
livestock	0.68%
low input:	
processed fruits and vegetables	0.17%
dairy	0.09%

Where fresh fruits and vegetables is an immature industry which relies heavily on government intervention, processed fruits and vegetables is a high risk/priority industry which Agriculture Canada argues requires additional resources to address potential health and safety concerns.

The department has adopted a variety of strategies to make the best use of available resources. These strategies include:

- cross training/utilization of inspectors in multi-commodity grading eg. poultry and hog grading.

- frequency of inspection level (FOIL): statistical sampling for selected grading and for plant inspection where high compliance rate results in a low inspection rate.

- work sharing with industry eg. poultry grading where industry grading is monitored by federal inspectors.

- elimination of compulsory interprovincial inspection and replacement by grade/quality monitoring eg. fresh fruit and vegetables.

- laboratory accreditation where private laboratories replace federal laboratory analysis e.g. egg products, dairy.

- registered produce warehouses: a program in which good packers could ship interprovincially without certification under a good manufacturing practices type arrangement.

- use of new technology e.g. electronic hog grading to effect productivity improvements and increased accuracy.

Agriculture Canada has also introduced a more universal cost recovery program. In 1984/85 cost recovery was estimated to include 5 per cent of the estimated cost of the food inspection program (Table 3). Proposals for 1985/86 would increase cost recovery to about 15 per cent (and eventually to about 20 per cent), where fresh fruits and vegetables program costs would be about 75 per cent cost recovered and processed fruits and vegetables would be zero per cent and where meat hygiene would recovery about 10 per cent and livestock grading about 35 per cent.

While there may be an appropriate rationale for this approach, it appears that the cost recovery proposal has targeted high recovery where the industry may be least able to pay (i.e. fruits and vegatables), and low recovery where the industry may be more able to pay (i.e. meat hygiene),

but where "health and safety" arguments are used to decide not to cost recover.

We understand that industry was not consulted prior to approval of a cost recovery plan for 1985/86 and beyond that the Canadian Meat Council and the Canadian Horticultural Council both object to the current proposals. Discussions are underway to find common ground on timing, amount and activities and services to be cost recovered.

ASSESSMENT

The Quality Assurance and Safety of Food program has a significant impact on the growth, stability and competitiveness of the Canadian food industry in both domestic and export markets. This is due in the main to the quality (truth) and safety features of the program.

The program has experienced both workload, work complexity, and resource swings in the past five years. It has developed strategies and plans to meet these in a businesslike way which included the introduction of sampling (FOIL) techniques for facilities inspection and product grading, self-grading by industry, monitoring of standards by Agriculture Canada, and demonstration projects using new technology and automation. e.g. electronic hog grading.

As a general strategy, Agriculture Canada intends to withdraw direct service where service is discretionary and to promote industry self-grading and/or inspection with monitoring and/or certification by Agriculture Canada at no cost. Where service is discretionary but requested by industry, negotiated service levels would be provided on a full cost recovery basis consistent with the Department's existing policy on "privatization, contracting out, and cost recovery" (1979).

The department should take credit for these initiatives and be encouraged to do more.

In the food safety area, the department has less discretion in modifying standards and procedures, because of reciprocal arrangements with principal trading partners, international agreements and protocols. Reliability in this area is a function of the relationship between workload and the number and quality of resources. Safety functions and responsibilities have been reviewed by the department, and

it is in a position now to discuss its further requirements with Treasury Board. The significance of the economic impacts (expressed both in domestic and international terms) and the health and safety of consumers should weigh heavily in determining the appropriateness of any requests.

Agriculture Canada's responsibility for food inspection at the manufacture and trade level was established in a memorandum of agreement with Consumer and Corporate Affairs(CCA) in 1970. However, enforcement activities of CCA Consumer Products Branch overlaps Agriculture Canada's responsibility. In the view of the study team, the overlaps should be eliminated and Agriculture Canada's exclusive responsibility for food inspection at the manufacture and trade level reaffirmed. This would include responsibility for the Consumer Packaging and Labelling Act and any provisions of the Food and Drug Act currently enforced at the manufacturing level by Consumer and Corporate Affairs.

Industry observes that adherence to labelling requirements is not enforced on imported products to the same degree as on domestic products. This could be addressed on a more consistent fashion if such a clarification of responsibility occurred.

It is worthy to note here (and possibly to examine further) that accountability for the food inspection program is shared by three directors general at headquarters and that no focal point of management or accountability for food inspection exists at regions. This occurs in a program that accounts for about 55 per cent of the person year and dollar resources of the inspection and regulation program and about 22 per cent of the departments person year resources. This occurs in a program through which the Government of Canada assures domestic and international consumers of the quality and safety of food.

The existing cost recovery proposal contains some disproportionate cost burdens for certain commodities. While they fit with the department's strategy for shifting grading services delivery to industry, they would have one commodity group (fresh fruit and vegetables, $0.6 billion in sales) pay $5.7 million for inspection and grading, while another (meat, $7.4 billion in sales) would only pay $5.7 million.

The former commodity has a special problem, potatoes, which begs special treatment. In this case, it would seem

reasonable for the department (with industry) to conduct a review of the problem and to consider options which could include modified timing and rate of implementation of cost recovery proposals, and development support to help promote independence and viability in the industry.

OPTIONS

The study team recommends to the Task Force that the government consider retaining the program with the following improvements:

a. Justify the differential cost recovery rates in the light that as a general principle cost recovery rates should be the same for all commodities. Re-examine cost recovery proposals in the light of economic burden/contribution of commodities (ability to pay) and the legal and social impacts of the policy.

b. Consider management and organization alternatives to better identify, direct and control the "food inspection program" of the Government of Canada. Eliminate the overlapping responsibility of Consumer and Corporate Affairs and confirm Agriculture Canada's exclusive responsibility for food inspection and enforcement at all levels of manufacture and distribution except the retail level.

TABLE 1

Workload/Resource/Performance Observation Changes: 81/82 to 84/85 (estimated)

	workload	resources PY's	resources $'s	performance observations
Poultry eggs	+ 9.4% + 1.8%	+10.7%	+ 48.8%	work shared with industry/provinces plants inspected on sample (FOIL) basis incidence of Salmonella 1% (1978) is 5% (1984); eggs below grade at retail Ontario 20% Maritimes 40%; imports 100% inspection better quality assurance.
Dairy	N/A	+ 1.9%	+ 37.3%	import/domestic: delivery only 50% domestic/import program resulting in consumer/industry complaints about lack of compliance. export: priority area
Fresh Fruits and Vegetables	+38.6	-19.8%	+ 9.1%	imports: shortfall in pesticide residue monitoring; inspections within 24 hours - 20% shortfall exports: priority domestic: reduced level of service; reduced compliance; reduced competition with imports.

Workload/Resource/Performance Observation Changes: 81/82 to 84/85 (estimated) cont.

	workload	resources PY's	resources $'s	performance observations
Processed Fruits and Vegetables	+30.7%	+64.8%	+ 88.6%	- imports: producer/ processor complaints of lack of enforcement exports: no inspection of Canola oil risking potential $1B new market. domestic: plants inspected on sample basis; compliance retail level 4.5% (1977) is 32.5% (1984).
Meat Hygiene	+ 7.4%	- 1.6%	+ 3.1%	imports: inadequate testing for adulteration and for residue testing; exports; delisted plants 1 (1976) 21 (1981) 33 (1982); 20% registered plants are "borderline"; rejected shipments by USA 0.56% (1982) 1.18% (1983) or over 4 million pounds in 1982/83.
Livestock - beef - hogs	-- - 0.2% no change	-11.8%	+12.0%	acceptable level of service; potential for productivity improvement.

TABLE 2

Relationship of Resources to Market Value and Assessment of Risk/Priority

Resources (84/85)

	Person Years		Dollars (millions)		Estimated Market Value		Priority/ Risk
	PY	%	$	%	TOTAL	%	
Poultry & Poultry Products	156	7.1%	6,149	7.4%	$ 0.7	5.0%	High
Dairy	102	4.6%	3,948	4.7%	$ 4.0B	28.5%	Low
Fresh Fruits and Vegetables	213	9.7%	7,604	9.1%	$ 0.6B	4.2%	Low
Processed Fruits and Vegetables	60	2.7%	2,210	2.6%	$ 1.3B	9.2%	High
Meat Hygiene	1,505	69.1	57,727	69.7%	$ 7.4B	52.8%	High
Livestock	142	6.5%	5,105	6.1%	(see meat hygiene)		N/A
TOTAL	2,178	100.0	$82,743	100.0	$14.0	100.0	$1.3B

While a low risk/priority, the fresh fruits and vegetables industry lack a tradition of self regulation and quality control. It relies heavily on government intervention in inspection and regulation to ensure domestic quality and market stability, and competeviness with imports.

TABLE 3

Cost Recovery

		84/85		85/86	
	Estimates	Cost Recovery (millions) (Forecast)	%	Cost Recovery (millions) (Projected)	%
Poultry	$ 6,149	215	3.49%	$ 330	5.36%
Dairy	3,948	0	0	1,400	35.46%
Fresh Fruits and Vegetables	7,604	475	6.24%	5,750	75.61%
Processed Fruits and Vegetables	2,210	0	0	0	0
Meat Hygiene	57,727	4,626	8.01%	5,200	9.87%
Livestock	5,105	0	0	1,900	34.12%
Laboratory	5,568	0	0	0	0
Benefits	10,309	0	0	0	0
TOTAL	$98,620	$5,316	5.39%	15,080	15.29%

FOOD SAFETY, QUALITY AND NUTRITION

OBJECTIVE

To identify and control dangers associated with nutritional quality of foods and microbiological and chemical hazards in the food supply.

AUTHORITY

Department of National Health and Welfare Act
Food and Drugs Act (1953) and Regulations
Meat Inspection Act
Pest Control Products Act
Fisheries Inspection Act
Fisheries Act

RESOURCES ($ million)

	82/83	83/84	84/85	85/86
Total	26.5	29.8	30.2	30.9
Person-Years	577	575	578	591

DESCRIPTION

The Food Safety, Quality and Nutrition Program seeks to prevent foods which are hazardous to health from reaching consumers, to ensure that foods for individuals with special dietary needs meet nutritional quality standards and are safe for continuous dietary use, and to promote safe handling of foods by all sectors of the industry and by the public.

The program identifies chemical contaminants, agricultural chemicals, food additives, micro-organisms, microbial toxins and nutritional shortcomings in food which are potentially hazardous to human health; develops standards and regulations for the food industry; promotes voluntary compliance by the industry with good manufacturing practices; carries out inspections, complaints investigations and enforcement actions; and, disseminates information to the food industry and the public on safe handling of foods.

The Food Directorate and the Field Operations Directorate of the Health Protection Branch are jointly responsible for the administration of the Food Safety, Quality and Nutrition Program.

The Food Directorate comprises three line bureaus - those dealing with Chemical Safety, Microbial Hazards and Nutritional Quality - and three staff divisions. The directorate is mainly responsible for research, evaluation of health hazards from food, standard setting, development and interpretation of regulations and liaising with consumer, industry and international organizations.

The Field Operations Directorate consists of a small headquarters organization in Ottawa and a decentralized field organization, located in five regional and twenty-two district offices across Canada. This Directorate is mainly responsible for inspections, laboratory analysis, complaint investigations, compliance monitoring and enforcement action under the regulations and education of consumers and the industry. The Field Operations Directorate is also responsible for the implementation of other Health Protection Programs, e.g., Drugs, Medical Devices.

The program has understandings and/or agreements with the Departments of Fisheries and Oceans, Consumer and Corporate Affairs, Agriculture Canada and with provincial government departments in its administration of the Food Quality and Hazards Program.

BENEFICIARIES

Consumers, the food processing industry; and producers, packers, distributors and exporters of agricultural products.

OBSERVATIONS

Health and Welfare Canada (HWC) is only one of three federal departments that regulate and control the food industry. Agriculture Canada is responsible for the inspection (for safety and wholesomeness) and grading of food and food products at the manufacture and trade level and for the registration of pesticides. Consumer and Corporate Affairs is responsible for labelling and fraudulent sale of food products at retail level.

Provincial and municipal government agencies are responsible for provincial health and sanitation standards within their jurisdictions.

The Food Safety, Quality and Nutrition Program provides advice to these regulators of the food industry on matters relating to human health. It is the principal health advisor to Agriculture Canada on: potential health hazards in food from chemicals registered or submitted for registration under the Pest Control Products Act; and on the health implications of various chemicals proposed for use in food production and processing facilities inspected by Agriculture Canada.

Potential duplication in responsibilities with other federal departments and with the provinces is dealt with in various memoranda of understanding/agreement. For example:

HWC and AC: Interdepartmental Inspection and Analytical Program to Control Health Hazards in Processed Egg Products.

HWC and AC: Regulatory Control of Agricultural Chemicals.

HWC and CCA: Transfer of Responsibilities Relating to Foods under Food and Drugs Act and Regulations.

HWC and various provinces: Duplication in bakery inspections, recall of food products, efficient use of regulatory and inspection resources (provinces responsible for participation of appropriate municipal agencies).

AC and HWC, the major players in food safety, state that their respective roles are clear and that there have been no major negative consequences over potential duplication or gaps in service.

Grocery Products Manufacturers of Canada (GPMC) observe, however, that there is duplication of regulations with respect to food safety, packaging and labelling, and over administration by Consumer and Corporate Affairs and by Health and Welfare Canada that not only adds cost but inhibits productivity. The observation was directed at Consumer and Corporate Affairs involvement.

ASSESSMENT

Program objectives are valid, appropriate for the protection of the health of consumers, and, it would appear, are being achieved.

The perception of duplication in the sense of multi-federal inspectors and inspections involving the same client cannot be entirely eliminated. The medical/technical nature of HWC inspection function requires an expertise base which cannot be combined with that of other departments. The perception of duplication with Consumer and Corporate Affairs is discussed elsewhere in this report and can be eliminated. Otherwise, potential duplication/overlap between HWC and other federal departments has been anticipated and dealt with adequately.

OPTIONS

The study team recommends to the Task Force that the government consider maintaining this program.

INPUT ASSURANCE
(formerly AGC Inspection and Protection of Crops, Livestock and Farm Supplies)

OBJECTIVE

To ensure that feed, seeds, fertilizer and pesticides necessary for agricultural and forestry production are of a dependable quality and are safe for the prescribed uses.

The intended impacts of this program are:

- assurance that agricultural and forestry import supplies are safe, efficacious and truthfully presented in the marketplace, through presale evaluation, licensing and registration;

- assurance of compliance with Regulations and quality standards through postsale monitoring and sampling of import supplies.

AUTHORITY

Feeds Act and Regulations;
Hay and Straw Inspection Act and Regulations;
Seeds Act and Regulations;
Fertilizers Act and Regulations;
Pest Control Products Act and Regulations.

Resources ($ millions)

	82/83	83/84	84/85	85/86
Total	18.3	14.9	14.8	18.6
Revenue	(0.7)	(0.9)	(0.8)	(2.7)
Person-Years	456	350	334	391

DESCRIPTION

The Input Assurance Program involves:

- inspecting and testing livestock feeds for composition, quality and contaminants, to ensure that the feeds are effective, free from substances harmful to livestock and humans, and truthfully represented as to nutritional content;

- inspecting pedigree seed, testing samples, and grading, tagging and sealing seed lots to ensure accurately represented quality seed;

- regulating, inspecting and testing fertilizers for composition and quality to ensure that fertilizers sold or imported into Canada are efficacious, free from substances harmful to livestock, crops or humans, accurately labelled and represented with respect to nutrient content; and

- regulating, inspecting, testing and registering pest control products for use to ensure that products sold in Canada are effective and safe, with clear and complete information on product uses, and are adequately packaged and labelled.

Responsibility for the regulation of the Pest Control Products Act rests solely with Agriculture Canada. However, the effort to assess pest control products requires a high degree of cooperation. Although not named in the Act, Health and Welfare Canada provides advice and recommendations concerning the potential human health effect of pesticide products; and Environment Canada provides advice and recommendations on the effects of these products on the environment and on wildlife.

BENEFICIARIES

The Agricultural production sector i.e. farmers who are assured reliable input supplies which yield maximum outputs from crops and animals;

The consumer, both foreign and domestic, who consume food and food products which do not contain harmful levels of pesticide, drug and other chemical residues;

Producers, whose products can compete for sale, with significant economic returns;

Users who are protected from contact or over exposure to harmful (e.g. carcinogenic or toxic) agents; and

The Canadian public in terms of the productive capacity of soil, protection from down stream effects on water and the environment.

OBSERVATIONS

Feed

There are a number of program delivery problems which are attributed to the increasing number of exotic products being imported, on farm mixers using drug premixes, contaminants and incidents of drug residue, manufacturers whose feeds fail to meet guarantees for nutrients and indicating ingredients, volume of feed produced e.g. 1977 - 9 million tonnes versus 1983 - 13 million tonnes.

The compliance rate of feed samples has been below 70 per cent for several years.

The lack of inspection service has resulted in condemned shipments and/or restricted exports to the U.S., Japan and other Pacific Rim Countries due to triallate and PCB contamination and sulfa drug residues.

Seeds

The monitoring and enforcement of Seeds Act provisions is weak. Producers are initiating legal action against seed suppliers and the Department.

The monitoring of private seed laboratories is not being done adequately. This could lead to a perceived or actual lack of reliability of test results.

Processing of seed imports is experiencing major delays resulting in disruption of sowing schedules and, as a result, crop losses.

Unreliable and/or unavailable statistical information hampers planning and undermines industry confidence in the department.

Increases in seed potato acreage, particularly in Alberta, highlight the shortfall in the number of qualified inspectors and in the adequacy of laboratory testing facilities.

Fertilizers

Program shortfalls include the following:

- inspection and testing has not kept pace with increases in domestic sales and the number of fertilizer blending plants e.g. testing dropped 20 per cent (from 3,843 samples in 1971 to 3,100 in 1983); inspection points increased 50 per cent (from 512 in 1971 to 770 in 1983).

- The increased risk of poor quality fertilizers has a direct effect on the economic return to farmers and on a one billion dollar annual export market.

Pesticides

The time taken to register a new pesticide has increased to 18 months. The result is that new actives cannot be marketed in Canada and Canadian farmers given equivalent access to input chemicals of other countries producers.

Over 200 antimicrobial actives were "grand fathered" in 1972 under the revised Pest Control Products Act. The re-evaluation cycle for traditional pesticide actives is about 30 years. The result is that most of the 4,936 pesticide products registered in Canada have never been evaluated for environmental effects and that most do not completely meet modern registration criteria.

Few guidelines for the development of registration data have been developed to aid industry in preparing submissions. This results in delays in evaluations of new pesticides.

The Department maintains ongoing consultations with the Environmental Protection Service (U.S.) to share knowledge and experience about new and existing actives. However, registration of actives in Canada is based on a separate assessment procedure. Canadian conditions and effects e.g. weather, types of exposure, are different, as are crops on which actives are used. Moreover, the Canadian philosophy is different i.e. Agriculture Canada only registers products that are effective, Environment Protection Service (U.S.) assume that market prices will select out ineffective products; and

decisions regarding conditions and extent of use human and environmental hazards of exposure and acceptable risk are also different.

The field component of the program cannot meet more than about 30 per cent of these identified needs with the result that there is little verification of standards and effects, monitoring of manufacturing, use, research and safety factors, or liaison with the provinces, extension services or the public.

Pesticide registration is estimated to cost $1.3 million; the department proposes to fully cost recover this through a registration fee increase. Monitoring of manufactoring, use, safety factor is estimated to cost $3.3 million; the department does not propose to cost recover this because these activities "protect the interests of the producer or consumer, or substantially benefit some current national objective."

ASSESSMENT

Feed: There has been an increase in shortfalls in the program area. The department's own strategy for dealing with these is to encourage industry self-regulation through the introduction of "good manufacturing practice" standards. This would shift responsibility for quality control to industry with Agriculture Canada providng periodic audits of industry-administered standards. This represents a satisfactory alternative to the department.

Seeds: There are two significant effects of reduced or limited monitoring, enforcement and level of service. One effect is the possibility of legal action being might have purchased against the department and suppliers by farmers who might have purchased sub-standard seeds. The other is the economic effect of disrupted sowing cycles and lost or reduced of crops.

The department has proposed an almost six-fold increase in the cost recovery rate for 1985/86. Producers will expect a quality service and an assumption by the department of accountability and liability (legal and economic) for providing the service. The department will have to work with the Treasury Board Secretariat to agree on an appropriate improvement and resourcing strategy for this priority area.

Fertilizers: Fertilizers account for 10 per cent of farm input purchases. Farm expenditures on unreliable products results in higher input costs and lower yields. Product reliability is very important to sustain an export market currently valued at $1.2 billion per year. The department's strategy in this, to a large degree, discretionary area is to provide service on a cost recovery basis. Current proposal would increase fees from $11 thousand in 1984/85 to $350 thousand in 1985/86, to $700 thousand in 1986/87 and to $1,050 thousand in 1987/88 - in a $2 billion industry. The Department also proposed deregulation through the introduction of "good manufacturing practice" standards. These appear to be appropriate strategies which the department should continue to exploit.

Pesticides: Agriculture Canada estimates that in 1984 it received 1750 submissions under the Pest Control Products Act. Registration procedures were completed on 902, leaving a 1984 backlog of 848. About 14 per cent of submissions are forwarded to Health and Welfare Canada for evaluation and about 3 per cent are sent to Environment Canada for assessment. The reason for the difference in submissions handled by the two other departments is Environment Canada's failure, due to resourcing and internal priorities to support Agriculture Canada's need for environmental assessment advice.

Agriculture Canada periodically issues "temporary registration" to meet emergency needs. Temporary registration may be issued where Health and Welfare Canada has recommended denying or restricting registration - on the basis of data provided or not yet available from the manufacturer. This occurs by exception (two or three times a year), and there have been no known health effects from the procedure.

The pesticide registration process is characterized by large backlogs. This is not necessarily bad, since backlogs are more often explained by the requirement for additional information in order to determine product safety. The Environment Canada situation is an exception.

However, according to the Treasury Board Secretariat (TBS) the pesticide registration and monitoring functions of Agriculture Canada have been chronically under resourced. TBS has approved three measures proposed by Agriculture Canada to address serious shortfalls in this area. These include:

- increasing the resource allocation for the evaluation of new pesticides and the re-evaluation of existing pesticides by 12 person years in 1985/86;
- increasing the resource allocation for field compliance work (monitoring manufacture and use) by 13 person years in 1985/86;
- increasing the registration fees for new or amended use of active ingredients or devices to $3,000 from $100, new products to $100; and
- amending of registration status to $300, and registration (every five years) to $50.

The department has designated the majority of these program activities to be not justified for cost recovery. For example, monitoring of manufacturing, investigation of complaints and monitoring of use are "services which protect the interests of the producer or consumer, or substantially benefit some current national objectives".

The department has already introduced other measures to streamline and to improve the effectiveness of this regulatory process. One such measure is "product specific registration". This requires companies to provide specific data concerning production processes for active ingredients and has already allowed regulators to keep better track of 630 active ingredients used in pesticides.

Problems in the Agriculture Canada component of the pesticide registration program have been identified and are being dealt with in a business-like way. Support from HWC. is acceptable according to Agriculture Canada. But Environment Canada has not developed the capacity to provide an acceptable level of support.

Agriculture Canada, in conjunction with Treasury Board and the Treasury Board Secretariat, has developed management, operational and resource strategies for dealing with pesticide registration system shortfalls. The department is in the process of implementing these now.

The appropriateness of the department's policy on cost recovery and its application is addressed in the overview on Food Inspection.

Options for improving the participation of Environment Canada are addressed in the program assessment which follows on Commercial Chemicals.

COMMERCIAL CHEMICALS
(including EC 20 Toxic Chemicals)

OBJECTIVE

- To assess new chemicals.
- To assess the environmental effects of the use of existing commercial chemicals.
- To develop and enforce regulations and strategies to control the entry of selected chemicals into the environment.

This assessment includes the Toxic Chemicals program of Environment Canada.

AUTHORITY

Environmental Contaminants Act
Pest Control Products Act (Agriculture Canada)

RESOURCES **($ millions)**

	82/83	83/84	84/85	85/86
Commercial Chemicals:				
$	3.0	3.0	3.8	4.0
PYs	59	59	64	64
PYs (pesticides)	(1.3)	(6.0)	(8.0)	(8.0)
Toxic Chemicals:				
$	2.2	2.4	5.9	1.1
PYs	8	22	16	16

DESCRIPTION

The Commercial Chemicals program is responsible for the assessment of new and existing chemicals, the evaluation of pesticides, the development of guidelines and regulations, and the management of compliance and enforcement activities.

The Environmental Protection Service (EPS) acts as the environmental advisor to Agriculture Canada through the assessment of pesticides proposed for registration under the Pest Control Products Act, and acts as advisor to provinces through membership on regional or provincial pesticide advisory groups. Health and Welfare Canada acts as Agriculture Canada's advisor on human health effects.

The Environmental Contaminants Act is administered jointly with Health and Welfare Canada (HWC) i.e. hazard assessments and regulations development, with implementation through EPS regional offices, often involving cooperative programs with provincial agencies or other federal departments.

EPS has also developed a toxic chemicals management program to prevent or control entry of harmful quantities of toxic chemicals into the environment. While other Environment Canada services are heavily involved in aspects of this integrated departmental program, EPS provides overall direction.

EPS chairs the Interdepartmental Committee on Toxic Chemicals (ICTC) which was established by Cabinet. ICTC provides coherence to the federal effort in toxic chemicals. Current priorities for action include drinking water, indoor air quality, dioxins, contaminants in fish and pesticides.

BENEFICIARIES

The Canadian public.

The Canadian public benefits from protection of the ecosystem.

The chemical industry benefits from registration of its products and their duty into the marketplace.

The agriculture sector benefits from access to new actives, increased productivity and long term protection of land and water resources.

OBSERVATIONS

In 1982, Treasury Board Secretariat reported on its review of all activities relating to chemicals, the inadvertent release of which would have potential adverse effects on humans, animals or the environment. The review found that:

- The activities are undertaken in a significant number of departments and under different and varied mandates. There are, however, four "core" departments: Agriculture, Environment, Health and Welfare and Fisheries and Oceans.

- The distribution of responsibilities and resources leads to the conclusion that activities in this field are devoid of coordination and, by inference, are duplicative and potentially counter-productive.

- There do not appear to be overall priorities for the control of toxic or other chemicals, and priorities have developed under individual (department) mandates.

While pesticides, for example, are believed to be necessary to ensure adequate food production, they can and do pose a danger to human health and/or the environment. The very nature of these substances and the respective roles of the various departments is such that divergence of goals and perspectives is almost inevitable.

The Component which deals with pesticide registration is a small part of the Commercial Chemicals program. In 1980/81, the person years allocated to the pesticide registration (environmental assessment) function was zero. In 1981/82, it was one. In 1984/85, noting that staffing action has not been completed, resources were assigned as follows:

two (2)	full time evaluation;
one (1)	preparation of memorandum of understanding on pesticide regulatory process;
one (1)	term position developing guidelines;
one (1)	technician dealing with research permits;
two (2)	overhead.

In terms of agricultural chemical programs, the registration system and the essential environmental assessments produced by this program represent too little effort, too late. For example:

- Agriculture Canada receives about 1750 applications for registration of new chemicals per year.
- About 200-250 of these are "routine" applications requiring environmental assessment work.
- Environmental Protection Service states that it cannot deal with this workload and will deal selectively with applications on an "exception" basis only. It says that "the present limitations on resources dictates that the division has the

capacity to do only two evaluations at one time...that it cannot respond to new initiatives, such as reevaluation, without reassignment of resources from current ongoing activities..." Environmental Protection Service, therefore, receives only about one-quarter of its potential workload from Agriculture Canada and it delivers about two-thirds of that on an annual basis.

Therefore, Agriculture Canada frequently registers pesticides before obtaining environmental assessments.

Agriculture Canada has written an "environmental fate" guideline and uses a U.S. "environmental toxicology" guideline in the absence of guidelines prepared by Environment Canada. Both these guidelines are needed to provide essential direction to industry on the scientific and other evidence studies required to facilitate pesticide registration.

As a generalization, Environmental Protection Service doesn't have its own set of "must assess" chemicals or pesticide priorities for new product registration. Rather it says that it responds, in an advisory (or passive) capacity to Agriculture Canada. There may be re-registration or re-evaluation priorities but Agriculture Canada produces the list.

Moreover, there is no discernable project management system for planning, managing and controlling the assessment of pesticides, by the Environmental Protection Service, in support of Agriculture Canada's overall responsibility for pesticide registration.

The result is that:

- Most of the 4,936 pesticide products registered for use in Canada have never been evaluated for environmental effects.
- Most pesticide products do not meet modern criteria for registering new chemicals.
- The re-evaluation cycle for pesticides is projected to be 30 years. The optimal cycle is 10 years.
- New pesticides are registered only sporadically, because of the cost of the application to private companies and the slowness of the process. The time

to evaluate an application to register a new pesticide is 18 months. The optimal registration time is six months, according to Agriculture Canada.

The Chemical (pesticide) Industry complains that new actives cannot be marketed in Canada as promptly as they expect. Therefore, Canadian producers do not have the same access as foreign producers to input chemicals. At the same time, the slowness of the process denies early access to markets to the chemical industry.

ASSESSMENT

The objectives of the commercial chemicals program are appropriate. However, in the view of the study team, the environmental assessment program is not achieving its objectives - particularly those which support the Government of Canada's pesticide registration program. There is no discernible project management and no productivity or performance initiatives directed at improving the efficiency and effectiveness of Environment Canada's role in pecticide registration.

The impact is that the environmental effects of the majority of both traditional and new pesticides have not been (nor will they be) assessed without significant change in the status quo. Further, industry and producers may both be losing significant benefits from the delays in introducing new products into the agri-food sector.

The department has allocated some additional resources to this program since 1983/84 and has made some progress in addressing the shortcomings noted above. However, more management commitment to producing results is needed.

OPTIONS

The study team recommends to the Task Force that the government consider establishing an effective environmental assessment capability in Environment Canada which supports the Government of Canada'a pesticide registration program.

This would include:

- defining a system, goals, performance standards and processes for the assessment of new and existing pesticides;

- preparing acceptance criteria and evaluation protocols to permit prompt registration decisions of routine applications by Agriculture Canada and expedient identification and assessment of exceptions by Environment Canada;
- meeting time and professional standards for assessment procedure results negotiated or determined with Agriculture Canada and industry; and
- assigning appropriate resources.

ENVIRONMENTAL QUALITY AND HAZARDS
(Health and Welfare Canada)

OBJECTIVE

To identify man-made and natural environmental hazards and to control the use of dangerous products.

AUTHORITY

Department of National Health and Welfare Act
Hazardous Products Act
Pest Control Products Act
Environmental Contaminants Act
Clean Air Act
Canada Labour Code
Transport of Dangerous Goods Act
Radiation Emitting Devices Act
Emergency Planning Order

This report focuses on the most relevant authority for "agricultural programs", the Pest Control Products Act.

RESOURCES ($ millions)

	82/83	83/84	84/85	85/86
Total	15.1	17.9	16.6	17.7
Person-Years	242	280	260	276

DESCRIPTION

The Environmental Quality and Hazards program identifies and assesses the health hazards of chemicals and waterborne pathogens in man's environment (excluding agents directly associated with foods other than drinking water, drugs, cosmetics and devices), encompassing both the outside and indoor environment and workplaces.

Responsibility for the regulation of pest control products under the Pest Control Products Act (PCPA) rests solely with the Minister of Agriculture. However, HWC is Agriculture Canada's source of advice and recommendations concerning the potential human health effect of pesticide products.

Both departments have a responsibility to conduct surveillance and monitoring for residues. They also work together with their provincial counterparts to ensure that Canadian agricultural practices are given due consideration in establishing maximum residue limits and accepting international maximum residue limits.

A Memorandum of Understanding (HWC and Agriculture Canada: Regulatory Control of Agricultural Chemicals (December 1982) elaborates the relative responsibilities for the Pest Control Products Act.

BENEFICIARIES

Producers and professional users of pest control products who can rely on labelling instructions for acceptable products and who are prevented any contact with products which are refused registration.

Foreign consumers of Canadian produced food who have the same assurance.

The Canadian consumer of food produced in Canada or imported, who is assured that residue levels are within prudent tolerances.

OBSERVATIONS

The program appears to be effective in assessing the hazard posed by pest control products.

Agriculture Canada is periodically required to issue two or three temporary registrations to meet emergency needs. These temporary registrations are issued for pest control products for which HWC, on the basis of data provided by the manufacturer, recommends either denying or restricting registration. Of concern to HWC, there is little or no monitoring of the use of products temporarily registered, nor are guidelines issued with respect to product use or disposal. Agriculture Canada is not required to consult HWC when issuing such registrations. However, there have been no known health effects from "temporary registrations".

Agriculture Canada's monitoring of the use and disposal of pesticides is extremely limited relative to the extent of pesticide use and potential health hazard, particularly at the applicator level. There is heavy dependence on adherance to the label requirements, but little evidence that label instructions are followed or the product properly used.

Provincial monitoring of the sale, use and disposal of pest control products is, in most provinces, minimal. Both Agriculture Canada and HWC are of the opinion that the lack of a standard legislative model (including licencing, training, monitoring, guidelines and standards) has probably contributed in large part to the lack of uniformity among provincial pesticide programs and to the low level of provincial activity in the monitoring and control of pest control products.

Because of this, Agriculture Canada and HWC are concerned that users of pest control products in Canada may not be adequately protected. There is no concern that the general public is at risk.

Discussions are now underway with the provinces to develop national guidelines for the uniform training of licenced pesticide applicators. Furthermore, work plans are being developed by Agriculture Canada, in reponse to the Interdepartmental Committee on Toxic Chemicals (ICTC), to increase the field enforcement capability and to align resource levels with workload. Treasury Board has also approved an allocation of 25 person years for 1985/86 and beyond, in order to provide Agriculture with the capability to improve monitoring activities, to reduce the re-evaluation cycle from 30 years to 10 years, and to decrease the delay in pesticide registration.

ASSESSMENT

The program appears to be effective in assessing the hazard posed by pest control products.

It is Health and Welfare Canada's conclusion, however, that although procedures are in place which are effective in preventing the registration of most potentially hazardous pest control products, the occasional temporary registration of hazardous or potentially hazardous pest control products to meet emergency needs without any (or sufficient) monitoring and without specific and restrictive guidelines

for use, may constitute an unnecessary risk to the health of producers and other users of pest control products.

In spite of the adequacy of the registration process, there is insufficient evidence that once registered, pest control products are used for the purposes intended, or that they are properly and safely applied and disposed of.

Several improvements, including an increase in the resource allocation for registration and for monitoring manufacture and use (AC) and improvements in the interdepartmental committee, perticide regulation (AC, F&O, HWC) have already been realized. These should continue.

OPTIONS

The study team recommends to the Task Force that the government maintain the program with no change.

ANIMAL HEALTH
(Formerly AGC 215, Inspection and Protection of Crops, Livestock and Farm Input Supplies)

OBJECTIVE

To maintain a healthy Canadian livestock and poultry population in order to permit and enhance domestic and export trade in livestock, poultry, meat and other animal products.

AUTHORITY

Animal Disease and Protection Act and Regulations
Meat Inspection Act and Regulations
Humane Slaughter of Food Animals Act and Regulations
Pesticide Residues Compensation Act

Resources (\$ millions)

	82/83	83/84	84/85	85/86
Total	45.5	54.1	65.8	82.3
Revenue	(0.7)	(0.7)	(1.3)	(3.3)
Person-Years	942	1,021	1,034	991

DESCRIPTION

The Animal Health Program is delivered through a decentralized system of seven Regional Offices, 116 District Offices, and eight Animal Pathology Laboratories. It provides on-site animal disease surveillance and testing programs to prevent the entry of disease into Canada; programs to prevent the spread of disease inter-provincially; and programs to control and/or eradicate diseases by surveying and inspecting animals at 100 ports of entry, 200 livestock auction markets, and between 200,000 and 300,000 livestock farms. Each District Office services 2,000 to 3,000 farms, depending on the types or classes of livestock and the density of the farms to ensure the acceptance of Canadian livestock and meats on export markets, and the economical production of livestock and meats in Canada through:

- Preventing the entry of economically devastating foreign diseases. The introduction of Foot and Mouth Disease would, for example, cause the immediate and total cancellation of exports of meats, livestock and raw products of the soil (such as grains, hay and stray) to all of our major markets.

- Maintaining the capability to diagnose and to eradicate foreign animal diseases, should they be introduced into Canada; this permits a return to normal trade in the shortest possible time and restricts direct losses caused by the disease.

- Eradicating or controlling diseases such as Tuberculosis and Brucellosis which contributes significantly to the economies of livestock production in Canada, to our ability to compete on world markets, and to our ability to certify our livestock to meet the health requirements of countries to which we export.

- Maintaining the health status of the Canadian livestock population through disease detection (monitoring, inspection, testing) veterinary research, preventive medicine and the certification of animals and products for export.

- Operating control programs for animal diseases transmissible to human beings such as rabies.

- Controlling the transport of animals in order to significantly reduce animal death, suffering and product losses due to bruises, fractures and other conditions which result in condemnation of the meat.

The Animal Health Program uses animal testing, disease statistics and assessment of economic consequences to determine appropriate levels of service and acceptable risk. Agriculture Canada determines prudent tolerances (or risk) based on common practice, multilateral and bilateral agreements and conventions.

The rate of testing or program delivery is a function of the incidence of disease. As the incidence of disease declines, testing programs move from collection on a herd basis to an area basis and/or sampling theory applied to data collected on animals being processed for food.

There is a shared responsibility with the National Revenue (Customs and Excise) in regard to imports; with the Quality Assurance and Safety of Food Program in regard to surveillance and eradication and control programs; and with provincial governments in several specific surveillance, and eradication and control programs.

BENEFICIARIES

Producers and exporters of livestock and poultry, ($950 million exports in 1981), bovine semen ($8 million exports in 1980) and embryos are the direct beneficiaries. The Canadian public and the economy benefit from the export trade.

OBSERVATIONS

The current domestic program is providing good control of named diseases under the Animal Disease Protection Act, for example:

- herds quarantined for brucellocis have decreased from 1,500 in 1977, to 45 in 1984, with eradication anticipated by 1987

- simulations indicate that ten herds (of 226,000 herds) may be infected with bovine tuberculosis, with eradication anticipated by 1986

- no fatal rabies in humans for more than 10 years.

The current import program has prevented all but limited incursions of foreign animal diseases - the most recent being Anaplasmosis (1983) - all of which were successfully eradicated.

The Department is using a number of approaches to obtain productivity improvements and to obtain "best use" of available people and dollar resources. Some examples include:

- contracting out service to auction markets

- privatization of field testing of animals for export to the United States, Korea, Italy and Mexico with final endorsement and departure inspections performed by Agriculture Canada personnel

- annual testing of Brucellosis Free Listed Herds by private practitioners

- limited cost recovery

- modification of certification, laboratory testing and surveillance procedures.

A number of shortfalls in program delivery are noted, including:

- Limited, rather than full scope, serological survey data to maintain Canada's "disease free" status in export markets.

- Emphasis on laboratory testing rather than on research and development of solutions to laboratory methodology problems e.g. toxic serum problem.

- Lack of staff and a national laboratory testing facility and certification service for biologics resulting in no on-site testing of domestic or imported veterinary biologics for purity, potency, efficacy, and safety. This lack of capacity has discouraged domestic production.

- Monitoring of only 15 per cent of livestock and poultry transported interprovincially where losses in swine and poultry arriving at Canadian abattoirs (1980/81) were estimated to be $25 million.

ASSESSMENT

While the Animal Health Program appears to be meeting its objectives, it claims that it is experiencing difficulty covering all of its responsibilities in a field that is expanding and where risks are increasing.

In its own internal review, the department outlined a strategy directed at modifying programs, coverage and priorities, and substituting private veterinary services or laboratories, and/or implementing cost recovery for services which should be delivered on a national scale. Effective implementation and management of these initiatives would appear to respond to program shortfalls. The Department

should be encouraged to pursue these aggressively and be recognized for its successful management of a dynamic program.

OPTIONS

The study team recommends to the Task Force that the government maintain this program with no change.

PLANT HEALTH
(Formerly AGC 215, Inspection and Protection of Crops, Livestock and Farm Input Supplies)

OBJECTIVE

To protect and improve the health of our agricultural and forestry heritage for the benefit of man and the environment.

AUTHORITY

Plant Quarantine Act and Regulations
International Plant Protection Convention,
FAO (1979).

RESOURCES **($million)**

	82/83	83/84	84/85	85/86
Total	7.1	7.5	8.5	11.4
Revenues	(0.2)	(0.2)	(0.2)	(0.6)
Person-Years	162	171	177	244

DESCRIPTION

The Plant Health program is designed to control the entry and spread of plant pests and diseases into and within Canada and to facilitate the entry of plant and plant products into international markets. This involves:

- inspection and control of plant material and products entering Canada through 34 ports of entry and the phytosanitary certification and inspection of agricultural and forest products destined for export or for movement from one region of Canada to another;

- treatment of plants and plant material at ports of entry or ports from which export consignments originate in Canada;

- eradication of plant pests and diseases of plant quarantine significance where found in Canada and if eradication is unfeasible, management of these pests and diseases in defined quarantine zones; and,

- biological support services for the control of plant pests and diseases. These include laboratory identification of plant pests and diseases and surveys outlining the distribution of such pests and diseases.

BENEFICIARIES

Producers and exporters of Agriculture Canada certified agricultural and forest products. Estimated value of such exports is $8.5 billion ($3.0 billion in agricultural products and $5.5 billion in forestry products).

Canadians in general, who benefit directly from disease and pest free plants and plant products, and indirectly from foreign trade.

OBSERVATIONS

As of 1983/84, the resource base had remained basically constant for six years. During this period inspection workload increased. Domestic and export demand grew by 80 per cent, and imports increased by 130 per cent. Inspection points increased from 21 to 34 due, in part, to containerization and an increase in the number of international airports.

The relationship of person-years to workload is approximately the following:

	Import	**Export**	**Domestic**	**Biological Services**
Consignments/ Inspections	50.5K	40.0K	76.0K*	N/A
Person-Years	70.6	54.2	20.4	9.0

(* Includes 75,000 vehicle inspections in Newfoundland due to provincial quarantine.)

In Alberta and Quebec, up to 25 per cent of plant or plant disease-carrying imports are not inspected at present. Instead they enter Canada on the "honour system" which is subject to abuse, increasing the risk of serious plant pests or diseases becoming established; and the cost of their detection and eradication.

The Department maintains that the inspection function is not able to provide the level of service required to guarantee that Canadian commodities are free of disease or insects. This has already resulted in lost export opportunities for such commodities as apples, potatoes and lumber.

New pests have created a demand for increased inspection activities. These include bean anthracnose, corn head smut, verticillium wilt (alfalfa), tobacco blue mold, gypsy moth, golden nematode and scleroderris canker. The Department is working with the Australian Government to develop a pest risk assessment model for selected plants or plant products imported from there. This will provide knowledge of the risk of importing certain pest or diseases and facilitate decision making with regard to certification requirements. It will assist in deciding whether plants should be imported or not, but it will not have a direct impact on resource requirements.

The Auditor General has observed (1982) that in one area of regulation and inspection (plant quarantine), where the objective is to prevent the introduction, establishment and spread of plant diseases or pests nationally and internationally, the quality of inspection is not regularly monitored. This is a particularily vulnerable area because regular inspection staff are supplemented with untrained inspectors during peak periods. The potential risk to crops and to export markets is high.

Examples of recent "lost markets" include such commodities as apples and alfalfa seed targeted for markets in Australia, and South Africa. Rejected shipments include flour, lumber and forest products and potatoes in transit to Cuba, European Economic Community, Mexico, South America, United Kingdom, United States and Venezuela.

ASSESSMENT

The Plant Health Program has already been reviewed by the department and Treasury Board. Both concurred that there are serious shortfalls attributable to service and resource levels, and that the health and safety of domestic plants and plant products and their export markets are at risk.

Accordingly, Treasury Board approved Agriculture Canada's productivity improvement and cost recovery

strategies, and increased the person year resource allocation for Plant Health by 65 person years.

The approach proposed by Agriculture Canada appears reasonable but there is no way of ascertaining or commenting on what appropriate levels of resourcing should be.

OPTIONS

The study team recommends to the Task Force that the government maintain the program with no change.

RISK MANAGEMENT PROGRAMS

The review of federal agricultural programs identified an array of instruments which either limit, or provide compensation for, production and market risks. Of the programs reviewed, the ones that are directed to reducing risks in primary agricultural production and marketing cost $827 million in 1984-85 or about one-third of the government's expenditures on agriculture.

The purpose of these programs, outlined in Annex A, is to provide a stable economic climate for agricultural production. With the single exception of ad hoc assistance programs (those agreed to on an arbitrary basis by the government), the applicability and general limits of protection can be known in advance by producers. However the costs of providing risk protection, while highly visible in some programs, may be virtually buried from both producer and public view under schemes such as supply management.

The government's risk protection and compensation programs extend from highly interventionist market regulation through to shared-cost, actuarially sound insurance-based schemes which address a variety of natural and market-related risk. (see Annex B).

The study team views the following features as highly desirable program characteristics of risk management programs:

a. shared-cost funding;
b. high rates of producer participation and/or commodity coverage
c. visible producer and taxpayer costs;
d. timely, efficient application;
e. maintenance of market signals and market-place decision-making.

Concerns

In the view of the study team, there are too many programs attempting too much.

- In some instances excessive compensation is apparent. For example, in the case of industrial milk producers, market risks are under producer

control through supply management. Yet participation in supply management brings with it additional federal price stabilization and marketing subsidies. Supply management and subsidies constitute redundant compensation. A further concern is that programs have been introduced simply to satisfy a perceived need for equitable treatment among producers. For example, advance payments to Eastern crop producers seems to have been introduced primarily to provide them with benefits similar to those already available to prairie grain producers.

The initiation (retention) of programs should be based on evidence of risk-related threats to primary industry stability.

Some provinces have adopted the strategy of top-loading or enriching federal programs to increase their share of national production and related employment. Therefore, Canadian production has been balkanized. Moreover, to the extent that Canada's competitors can demonstrate that federal and/or provincial assistance provides Canadian producers with an "unfair" advantage, import barriers may be erected against Canadian products.

Supply management programs have the objective of stabilizing producer incomes through the regulation of domestic markets. Production is lower and prices higher than would be the case in unregulated markets. Supply management is attractive to governments; there is no direct cost to the treasury; producers have assured sales up to their quota limits; and, producer representatives operate their schemes. However, these attributes are offset by higher prices to consumers, restricted imports (with attendant trade relations irritations), and the possibility of less efficient patterns of production, processing and distribution.

Despite the costs and distortion to markets, a wholesale scrapping of existing supply management schemes is not proposed at this time. Nevertheless, there is no doubt that alternative forms of stabilization, involving visible costs and retention of competitive markets is preferable. No new supply management schemes should be established, the study team concludes.

Ad hoc assistance measures are by definition arbitrary in applicability and coverage. Therefore, they can defeat or be counter-productive to well-defined cost-shared programs. Ground rules governing the application and treasury limits of compensation should be readily apparent and structured to divide the costs among all beneficiaries. Formal bi-and tripartite compensation programs should be substituted for ad hoc assistance.

Options

With the exception of the supply management schemes, most of the risk management programs currently in place exhibit one or more characteristics considered as highly desirable. Ideally, programs providing for the management of risks would be financed solely by producers on an actuarially sound basis. They would apply nationally and would not be subject to distortion by additional provincial programs. Balkanization of provincial markets through competitive stabilization and compensation programs (to promote market shares) would be eliminated. Moreover, countries importing Canadian agricultural products would not be able to raise barriers on the grounds that Canadian goods received excessive public subsidy.

Though desirable, the achievement of this ideal is unlikely. Because Canadians benefit from a stable agricultural sector, some public assistance is warranted. Moreover, some programs compensate producers directly for damage caused by other goods society values (migratory waterfowl). Nevertheless, in the view of the study team, movement toward producer financed insurance schemes is both possible and desirable.

1. Protection Against Production Risks

Program	**Federal Expenditures*** ($ million)	**Applicable comm/ Producers**
Crop Insurance	187.5	All commodities
Migratory Waterfowl	1.6	Prairie grain producers
Ad Hoc Emergency Assistance	79.5	Specific commodity/ producer designations

Protection Against Market-related Risks

Program	**Federal Expenditures*** ($ million)	**Applicable Comm/ Producers**
Western Grain Stabilization (WGSA)	113.4	Canadian Wheat Board Grain
Agricultural Stabilization (ASA)	96.8	All grains commodities but CWB
Advance Payments (Prairie Grain) (PGAP)	10.0	CWB grain producers
Advance Payments (Crops) (APC)	8.2	Other storable crop producers (non-CWB grains
Agricultural Products Board (APB)	12.6	Primarily perishable commodities

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* Fiscal 1984/85

Grains & Oilseeds Program		
Guaranteed Initial Payments	0	CWB grain producers
Export Credit Loan Guarantees	0	CWB grain producers; other agricultural producers (via EDC Act)
Supply Managed Commodities		
Dairy Support Program	317.3	Industrial milk and cream producers
Farm Product Marketing Agencies Act	0	Chickens, eggs, turkey

Annex B

Selected compensation programs are profiled in the chart on the following page on a continuum illustrating the degree of government support (intervention) in agriculture. Changes to compensation programs should lead to the adoption of characteristics which involve cost-shared, insurance, approaches. For example, in the specific case of the Dairy Support Program (subsidized supply management) suggested modifications would shift the current program one category to the right; government support and intervention would be reduced by the elimination of dairy subsidies.

More Support/Intervention ... Less Support/Intervent

Subsidized Supply Management	Supply Management	Federal Funded Stabilization	Bi-and-Tri partite Stabilization	Producer-Financed Stabilizatic
Examples				
Dairy Program	Eggs Poultry	Non-CWB Grains Fruits Vegetables	WGSA Red Meat*	None
Characteristics				
Producer Monopoly	Producer Monopoly	Federal Payments When Warranted	Federal-Provincial-Producer Financing of Payments	Producer-Financed Payments
Imports Restricted	Imports Restricted			
Domestic & Export Subsidies				
Inventory and Administration Contributions				

* proposed

WESTERN GRAIN STABILIZATION
(Agriculture Canada)

OBJECTIVE

To provide grain producers in the Canadian Wheat Board designated area with stabilization payments to offset price fluctuations, reduced sales, and production cost increases.

AUTHORITY

Western Grain Stabilization Act (WGSA), 1976; revised 1984.

EXPENDITURES ($ million)

	83/84	84/85	85/86	86/87
Contributions to Stabilization Fund				
Federal Government	121.9	112.0	130.5	128.0
Producers	60.4	46.4	36.1	35.1
Western Grain Stabilization Administration				
Operating Expenses	0.8	1.3	1.1	0.9
Person-Years	14	17	15	15

DESCRIPTION

The WGSA provides an actuarially sound income insurance scheme to protect participating western grain producers against falling prices, decreased sales and/or increasing costs. It covers a basket of seven major Prairie grains: wheat, oats, barley, rye, flax, rapeseed and mustardseed.

Contributions to the Stabilization Fund are made annually by both producers and the federal government on a one-third/two-thirds cost-sharing basis. Individual producer contributions are collected by means of a levy which may vary between one and 2.5 per cent of the value

of grain they market (up to a maximum grain value per individual of $60,000).

Payouts under the WGSA are determined on the basis of historical changes in producers' aggregate net cash flow, i.e. the difference between overall cash receipts from western grain sales and the cash costs of producing grain marketed. Individual producers receive a share of the payout based on the proportion of their levy contributions to total producer levies.

OBSERVATIONS

Eligible grain producers are automatically enrolled in the program, but may subsequently opt out within a specified period. About 75 per cent of producers originally enrolled have elected to remain in the program. In addition, about 80 to 85 per cent of new grain farmers have entered the program. Thus total enrolment is increasing over time.

The WGSA does not overlap the federal Agricultural Stabilization Act. However, the package of federal assistance to moderate the instability which western grain producers face is comprehensive, and includes:

- WGSA
- Crop insurance
- Western Grain Transportation Act subsidies
- federal export credit and initial payment guarantees to the CWB
- Prairie Grain Advance Payment Act subsidies
- the availability of federal farm credit.

Overall, Agriculture Canada analysis shows that the grains and oilseeds commodity group receives a disproportionately large share of federal financial assistance (65 per cent of federal commodity-specific expenditures in 1982/83 compared with 37 per cent of farm cash receipts).

Two payouts, totalling $368 million, have occurred since 1976. The fund balance reached in excess of $800 million in 1983/84. To address continuing fund surpluses, amendments to the Act were made in 1984 to increase program responsiveness and payouts. There is now a per unit trigger as well as the original aggregate trigger for a payment.

The Act allows for increasing the value of eligible grain sales on which levies are paid above the $60,000 ceiling. Increases are made with the objective of covering 90 per cent of producer sales.

BENEFICIARIES

Producers enrolled in the program.

The stability provided to these producers in Western Canada imparts stability to the whole western economy.

ASSESSMENT

This program is the successful model upon which the government's proposed Red Meat Stabilization plan is based. It involves producers buying into an actuarially sound insurance scheme to safeguard against market instability. Sound stabilization plans on an insurance basis represent one of the basic framework programs justifying long-term federal financial support.

The producer share of the cost of WGSA is approximately 1/3 which is the ratio for producers under the proposed Red Meats plan. The government's 2/3 share is solely a federal responsibility under WGSA. (For Red Meat it is proposed that the federal and provincial governments equally share the governmental 2/3 cost.)

Attempts to negotiate the Prairie provinces into sharing the government sector costs in a revised tripartite WGSA arrangement would be difficult to achieve given Canadian Wheat Board (federal) control over the delivery and marketing of western grain.

Attempts to pull back from the government sector 2/3 cost share level would be seen by grain producers as inconsistent with the government's Red Meat stabilization initiative.

There is producer pressure for higher limits of coverage. A declaration now that future increased coverage would be 'optional' and at a much lower level of government subsidy (say 1/3, with producers paying 2/3) would keep the basic governmental obligation intact while shifting large producers to a less rich subsidy. Over time, if the value

of grain sales increased, producers would assume an increasing portion of fund financing costs. If producers elected not to purchase coverage in excess of $60,000 worth of grain sales, the percentage of producer sales eligible for stabilization would decline marginally.

The Private Sector Advisory Committee observed that the government should have a longer term objective of producers funding 100 per cent of such insurance programs (e.g. WGSA, Agriculture Stabilization Act, Crop Insurance).

OPTIONS

The study team recommends to the Task Force that the government consider maintaining the current program for sales up to $60,000 without change and allowing individual producers to buy coverage for grain sales over $60,000. Coverage above $60,000 in grain sales would be financed 2/3 by producer levies and 1/3 by the federal government. This would require legislative change.

AGRICULTURAL STABILIZATION
(Agriculture Canada)

OBJECTIVE

To provide deficiency payments to agricultural producers for named or designated commodities under the Agricultural Stabilization Act.

AUTHORITY

Agricultural Stabilization Act (ASA), 1958; revised 1975.

EXPENDITURES (\$ million)

	81/82	82/83	83/84	84/85	85/86
Stabilization Payments					
Named Commodities	107.3	2.6	12.4	21.0	75.0
Designated Commodities	30.4	3.5	70.9	73.9	11.0
TOTAL	137.7	6.1	83.3	94.9	86.0
Agricultural Stabilization Board					
Total Operating	2.5	1.5	1.6	2.0	5.8
ASB Person Years	86	58	52	63	59

DESCRIPTION

The ASA protects producers from short-term price fluctuations by providing for deficiency payments when prices are low and/or costs are high by historical standards.

Nine commodities are "named" in the Act to receive support payments on a statutory basis: beef cattle, hogs, sheep and lambs, industrial milk and cream, corn, soybeans, and oats and barley outside the Canadian Wheat Board designated area. Payments to producers are made when the average price (adjusted for cash costs) in a given year falls below 90 per cent of the average price (adjusted for cash costs) in the preceeding five years.

Commodities, other than those named by the Act, may be "designated" on a discretionary basis by the Minister of Agriculture (subject to Treasury Board approval). These commodities include potatoes and apples which have major regional markets, as well as commodities with local markets. Support for designated commodities is made normally on the same basis as for named commodities.

Stabilization payments under this Act are 100 per cent federally funded. They are paid to producers by the Agricultural Stabilization Board, a crown corporation established by the Act. However, since 1974, most provinces have also provided substantial support under provincial legislation.

OBSERVATIONS

From 1976 to 1983, named commodities received about the same level of support ($215 million) as designated commodities ($221 million).

Provinces have supplemented federal ASA payments with support programs to protect their producers and increase their primary production shares. Some provinces have even made payments when no federal payment was indicated. This has, in the opinion of the study team, disrupted 'normal' production patterns across the country.

Federal payments represent a small percentage of farm cash receipts for commodities receiving stabilization. However, the U.S. is currently investigating whether countervailing duties should be applied to Canadian hogs and pork because of alleged unfair support from federal and provincial programs, notably stabilization and credit plans.

The increase in income which comes with the government contribution to a stabilization plan can artificially increase production, especially if the program obscures, for too long, fundamental price signals.

ASSESSMENT

Producers outside supply management systems are open to world price and market fluctuations. Some form of public sector support can be justified to stabilize prices (and modestly increase producer incomes) to ensure industry survival through depressed periods.

A revised federal approach to stabilization support based upon shared federal-provincial-producer contributions could eliminate competitive provincial measures.

New stabilization plans for nationally produced commodities under the ASA should be modelled after the proposed red meat stabilization plan. The proposed red meat plan provides for equal tripartite (federal-provincial-producter) contributions to an actuarially sound stabilization program. In effect, it represents an insurance approach to managing market risk. Implementation of the red meat plan is contingent upon the approval of amendments to the ASA Act (currently before Parliament).

The new red meat program would curtail inter-provincial competition via subsidies. Participating provinces have agreed not to provide additional support.

Other commodities could be placed on a tripartite basis if proposed amendments to the ASA Act are enacted. Agriculture Canada has allocated $86 million annually for support payments to named and designated commodities. It has been estimated that the current level of funding would be fully adequate to fund new tripartite plans.

The Minister of Agriculture is obliged to make a Submission to Treasury Board for each commodity for which a payment is indicated by the normal 90 per cent formula. This has resulted in about 40 Submissions over the last 5 years (approximately 8 per year).

If the Minister had been delegated the authority by Treasury Board to proceed when a payment up to $5 million was indicated by the normal formula, submission volume would have been about 10 (approximately 2 per year).

OPTIONS

The study team recommends to the Task Force that the government consider establishing tripartite stabilization programs for all commodities. The federal government would provide funding on an equal shared-cost basis with participating provinces and producers. As a condition of federal involvement, provinces would have to agree not to provide additional independent support measures. Until tripartite plans can be negotiated, the Minister of Agriculture should receive delegated authority to make payments under the normal formula up to $5 million, based on approved program criteria.

AGRICULTURAL PRODUCTS BOARD

OBJECTIVES

To stabilize markets, prices, and producer incomes by buying commodities which are in temporary over-supply, and reselling them later.

AUTHORITY

Agricultural Products Board Act, 1958. (Schedule "C" Crown Corporation.)

RESOURCES ($ millions)

				Forecast	Main Estimates
	81/82	**82/83**	**83/84**	**84/85**	**85/86**
Purchases and Handling	3.1	10.5	12.6	12.6	5.6
Sales	2.1	2.9	7.7	11.9	5.6
Net Losses	1.0	7.6	4.9	0.7	0
PYs	2	2	2	2	2

PROGRAM DESCRIPTION

The Agricultural Products Board (APB) comprises 3 senior officials from the Department of Agriculture. The Board provides advice to the Minister of Agriculture, who "may direct" the Board to take specific action. The Chairman is also Chairman of the Agricultural Stabilization Board, and the APB draws on the staff of the Stabilization Board as needed.

Under the APB Act, each of the Board's purchase and resale operations must be authorized by an Order-in-Council, which first requires Treasury Board approval. On average, APB makes 5 or 6 submissions annually to the Treasury Board.

With an exceptionally good crop (usually of a perishable fruit or vegetable such as blueberries or tomatoes), in Canada or in another country which lands the produce here, the Canadian fresh and processing markets may become saturated. In these circumstances, prices sag very badly, and even then the markets cannot clear the volumes of Canadian produce available. The APB can intervene in the market to buy some of the product and have it processed and stored pending more normal market conditions.

In cases where it decides to provide assistance, APB will negotiate with the producers to purchase the product at a price well below the average of recent years, in order to ensure that any anticipated losses are borne with the producers on at least a 50:50 basis. Once a tentative arrangement has been negotiated, APB with authorization of the Minister seeks Treasury Board approval; this process takes about 10 days.

ASSESSMENT

As a short-term market stabilizing operation the APB has worked well, in that:

a. It has provided producers with immediate support in times of overproduction and depressed prices.

b It has ensured that perishable commodities have not been dumped or left unharvested for want of immediate markets.

c. It has reduced or eliminated the government's potential liability for stabilization payments.

In some cases, APB intervention has been highly cost-effective. In 1983, APB purchased surplus onions for later resale in export markets; this firmed up the Canadian market and increased the producer price from $1.50 to $2.50 per 50 lb. bag (with consumers then paying 68 cents instead of 65 cents per 2 lb. bag). The net cost to APB was $800,000. If producers had received income stabilization through the Agricultural Stabilization Board rather than market stabilization through the APB, the cost to the Federal Government would have been $10 million (i.e. 12 times as much as the $800,000 net cost to APB).

Similar market action by the APB which eased a stabilization liability was buying apples for juice in 1983-84, pears in 1983-84, peaches in 1983-84, sour cherries in 1980-81, and tomatoes (which faced heavy imports at distressed prices) in 1982-83.

APB intervention has been less cost-effective in "repeat cases" when it has in effect been providing medium-term adjustment assistance rather than short-term market stabilization. This is particularly true for grapes, which have been purchased by APB in each of the past four years, (e.g., the largest being a $6 million purchase and $3 million loss in 1984/85).

APB management concedes this point, but argues that grape producers have been adversely impacted by three sudden tax policy changes in the past five years, and that APB assistance was required to cushion these impacts. However, we believe this is not a sound rationale for continuing APB market operations for a commodity.

Another problem "repeat case" was ad hoc assistance to turkey producers in B.C., where APB purchased turkeys which could not be sold to a failing co-operative. Treasury Board approval was provided, but only on the understanding that this case should not be considered as a precedent for the APB to use inventory financing as a means of subsidizing agricultural products. While APB's usual criteria (e.g. concerning cost-effectiveness) were not met in this case, APB's management was in effect directed to provide the assistance in the interest of orderly marketing.

The APB should have delegated authority of up to say $2 million to enter into market operations under approved criteria, but without specific prior Treasury Board approval, providing that the APB stays within its Main Estimates allocation of $5.6 million. This would speed decision-making while clearly maintaining accountability with the Minister and the Board.

OPTIONS

The study team recommends to the Task Force that the government consider maintaining the program for short-term market stabilization assistance.

For medium-term adjustment assistance ("repeat cases"): the government should consider not providing 100 per cent of the assistance via APB market operations on a continuous basis. When a basic market shift is recognized, a cost-shared adjustment program should be worked out with the producers and the province(s) in order to bring production more into line with market forces.

The APB should receive delegated authority for purchases up to a limit ($2 million), for any commodity, based on approved program criteria.

AGRICULTURAL PRODUCTS BOARD - TRANSACTIONS BY COMMODITY
1980/81 to 1984/85 (inclusive)

	Purchase	Sales	Net Loss (Pro[illegible]
Apple Juice (1983/84)	1,500	-	-
(1984/85)	-	1,500	-
Canned Vegetables (1983/84)	-	300	(300)
Grapes (1980/81, 81/82, 82/83, 83/84, 84/85)	14,124	-	-
(1981/82, 82/83, 83/84, 84/85)	-	1,612	12,512
Onions (1982/83, 83/84)	1,091	1,091	0
Peaches (1983/84)	1,804	-	-
(1984/85)	-	1,202	602
Pears (1983/84)	1,477	-	-
(1984/85)	-	819	658
Potatoes (1980/81)	610	13	597
Processed Fruit (1982/83, 83/84)	1,507	-	-
(1983/84, 84/85)	-	540	967
Prune Plums (1980/81, 81/82, 82/83, 83/84)	652	-	-
(1982/83, 83/84)	-	163	489
Raspberries (1983/84)	4,840	-	-
(1984/85)	-	1,716	3,124
Sour Cherries (1980/81, 81/82, 82/83)	3,690	-	-
(1980/81, 81/82, 82/83, 83/84)	-	4,036	(346)

	Purchase	Sales	Net Loss (Profit
Strawberries (1983/84)	62	–	–
(1983/84, 84/85)	–	34	28
Sweet Corn (1984/85)	280	–	280
Tomatoes (1982/83, 83/84)	7,391	–	–
(1983/84, 84/85)	–	6,122	1,269
Turkeys (1980/81, 81/82, 82/83, 83/84)	6,782	–	–
(1980/81, 81/82, 82/83, 83/84), 84/85	–	6,725	57
TOTAL	45,810	25,873	19,937

CROP INSURANCE
(Agriculture Canada)

OBJECTIVE

1. Producers can buy insurance against natural hazards.

2. Producers can borrow more easily with insurance coverage.

3. With viable crop insurance available, there should be no need for ad hoc emergency programs.

AUTHORITY

Crop Insurance Act - 1959; major enrichment in 1973-74;

Statutory program; two formulas for federal contributions specified in the Act;

Five year notification required for any federal changes unless provinces agree otherwise.

RESOURCES ($ millions)

82/83	83/84	84/85	85/86	86/87
$ 142	$ 134	$ 188	$ 160	$ 180

Federal administration: $486,000 / 9 person-years

DESCRIPTION

Provinces design sound insurance plans for any commodity, providing all risk coverage, tailored to the production pattern at the individual farm or locality.

Agriculture Canada approves, and agrees annually to the option(s) for dollar coverage based on covering cash input costs. Agriculture Canada pays each provincial crop insurance agency quarterly according to the formula agreed to and the policies sold.

Provinces actively sell insurance policies to farmers, and adjust claims.

Eight provinces have opted for the formula of federal payment of 50 per cent of actuarial cost, with farmers paying 50 per cent of actuarial cost, with farmers paying 50 per cent through premiums, and provinces paying all the administration costs.

Quebec and Newfoundland are following the formula of federal and provincial each paying 25 per cent of the actuarial costs, plus equal cost share of the administration. Farmers pay 50 per cent through premiums. This formula is usually more attractive to a province during start-up.

The commodity coverage in most provinces is now comprehensive, with the exception of forage crops. In this sense, crop insurance is now a mature industry and program.

The program costs are driven by the commodities covered, the participation rates, the steady productivity increases over time, and the increasing costs of production resulting in higher dollar protection needs.

There will likely continue to be slow but steady productivity gains and increases in input costs which will tend toward higher premiums. Participation rates cannot be fully predicted but will increase in some of the commodities over time.

The Federal Government has suggested that provinces design insurance plans for forages to forestall costly ad hoc emergency programs. Quebec and Ontario now have fully operational forage plans. Alberta and Manitoba will become fully operational in 1986/87 with Saskatchewan following soon thereafter. This will leave only livestock producers who purchase fodder without an insurance plan.

BENEFICIARIES

The producers participating in crop insurance benefit insofar as they pay in premium only 50 per cent of the actuarial cost and no administrative costs. The display of federal subsidies by province is attached. Approximately 55 per cent of producers buy insurance (118,000 out of the 210,000 producers with sales exceeding $10,000).

Participation Rates - major provinces

Sask. 75%	Que. 48%
Man. 75%	Ont. 40%
Alta. 60%	B.C. 26%

Crop Insurance is purchased more heavily by producers:

- specializing in one crop;
- relying on income from the farm for most of family income; growing high-risk crops such as barley, wheat and canola;
- concerned with the risk of cash flow disruption;
- who are operators of medium and large farms.

Producers with mixed crops or those who combine crops with livestock are less likely to buy crop insurance.

Governments at provincial and federal levels benefit because the crop insurance system is a business-like means of risk management. In the absence of such a system, an implicit social obligation is asserted, costly ad hoc emergency programs are required, and uneven treatment results.

ASSESSMENT

The 1984 Evaluation study concluded that Crop Insurance meets the goal of providing risk mangagement.

Crop Insurance is one of the basic framework functions for which ongoing support subsidy from governments to stabilize a major uncertainty factor is warranted.

The Evaluation concluded that the subsidized premium level to producers was a significant factor in the participation rate. If premiums escalate by more than twenty per cent, the Evaluation concluded that participation would begin to erode, and at an accelerating rate for higher escalation.

The provincial crop insurance agencies are all financially sound.

While federal and provincial financial commitments were not too far apart prior to the 1973 Legislation change, (Federal $4 million and Provinces $2 million), imbalances have developed.

The evaluation concluded that governments have been able to minimize demands for emergency ad hoc programs because of Crop Insurance; in the absence of plans for forages there have been expensive emergency programs (e.g. $48 million prairie drought in 1980 and the 1984 program costing $30 million federal share).

The long term federal objective should be to shift a higher cost share onto producers, consistent with maintaining participation levels; it should also bring into closer balance the federal and provincial shares of the governmental financial support for Crop Insurance.

The implications of the option are:

- Eventual savings for federal treasury (see chart).

- Negotiations with provinces are required; greatest dollar shift onto Saskatchewan and Alberta although comparable percentage shift for Ontario and Manitoba.

- Increased cost share charged to producers (20 per cent increase in premium).

- Effectiveness of programs not impaired.

Other formulas should be examined by Agriculture Canada. It may be possible and desirable to increase more strongly the provincial share.

OPTIONS

The study team recommends to the Task Force that the government consider notifying provinces of federal intent to re-negotiate for 1990-91 Fiscal Year the formula for cost shares on the following basis:

- producers paying 60 per cent via premiums;

- provinces paying 10 per cent of actuarial cost, plus administration costs;

- Federal paying 30 per cent of actuarial cost.

Burden Shift (1984-85 values as indicator) in $ millions

	Status Quo			New Option			Cost Changes		
for	Prov.	Fed.	Prod.	Prov.	Fed.	Prod.	Prov.	Fed.	Prod.
BC	.7	3.3	3.3	1.4	1.9	4.0	.7	(1.4)	.7
Alta	10.0	51.3	51.3	20.3	30.7	61.6	10.3	(20.6)	10.3
Sask	9.2	64.1	64.1	22.0	38.5	76.9	12.8	(25.6)	12.8
Man	4.0	16.0	16.0	7.2	9.6	19.2	3.2	(6.4)	3.2
Ont	3.6	21.1	21.1	7.8	12.7	25.3	4.2	(8.4)	4.2
Que*	9.0	9.0	11.2	9.0	6.8	13.4	-	(2.2)	2.2
NB	.5	1.0	1.0	.7	.6	1.2	.2	(.4)	.2
NS	.3	.2	.2	.4	.1	.2	.1	(.1)	-
PEI	.2	1.2	1.2	.4	.8	1.4	.2	(.4)	.2
NFLD*	.1	.3	.1	.1	.2	.2	-	(.1)	.1
TOTAL	37.6	167.5	169.5	69.3	101.9	203.4	31.7	(65.6)	33.9

* Quebec and NFLD operate under a different formula.

MIGRATORY WATERFOWL CROP DEPREDATION
(Agriculture Canada)

OBJECTIVES

To provide compensation on a 50-50 federal-provincial basis for a portion of the losses due to migratory birds.

AUTHORITY

Department of Agriculture Act

RESOURCES (\$ millions)

80/81	81/82	82/83	83/84	84/85	85/86
\$ 1.8	\$ .6	\$ .8	\$ 1.1	\$ 1.5	\$2.9*

* Man. - \$ .5
Sask. - \$1.0
Alta. - \$1.4

DESCRIPTION

Western Canada is on major flyways for birds migrating between the far north and the south. The birds land on ponds and sloughs, and eat and trample grain in nearby fields.

Canada has a treaty obligation with the U.S. to protect migratory waterfowl. This obligation prevents farmers from interfering with the birds or their habitat, and is enforced by the RCMP on behalf of the federal government.

Producers who are on the flyway resent that the obligation of society at large is being borne by a limited number of producers. They are permitted to use scare tactics (although this merely transfers the loss to neighboring farms) and some try to change cropping practices. However, they cannot take direct defensive measures.

While there are some flight path deviations from year to year, the damage zones are basically predictable. Although the damage to crops is more severe in years where harvesting is delayed due to poor weather, the

predictability is high enough that crop insurance would be prohibitively expensive.

The strong demand for redress from producers and from the three prairie provinces resulted in the first compensation program in the early 1970's. Canada and Alberta, Saskatchewan and Manitoba have now signed agreements for three complementary elements: Habitat Preservation, Crop Damage Prevention, and Crop Damage Compensation.

The provinces provide 50 per cent funding in lieu of the normal producer share applicable under crop insurance plans. Agriculture Canada contributes a 50 per cent cost share of compensation program, delivered by provincial crop insurance agencies.

The claims are limited to a damage assessment times a maximum of $70 per acre which is approximately the average for crop insurance programs. The market value of wheat in 1984 could be in the range of $125 per acre. This limited compensation results in payments averaging less than $1,000 per claim.

BENEFICIARIES

Claims from between 1,500 and 2,000 producers per year are received, and are based on about 125,000 acres which have been damaged.

ASSESSMENT

The Evaluation concluded that the level of compensation was perceived as low by producers. Since that time, the maximum reference value was raised from $50 to $70 per acre.

Five year agreements with the provinces were signed in 1983/84 covering prevention as well as compensation. The fact that provinces are paying 50 per cent, and demonstrates their judgement on the value of this program.

OPTIONS

The study team recommends to the Task Force that the government maintain the program with no change.

AD HOC ASSISTANCE PROGRAMS

OBJECTIVES

1. To provide the agri-food sector with financial assistance to cover losses, usually due to natural disaster conditions.
2. To maintain the production base.
3. To assist provinces in meeting large and unexpected financial obligations.

AUTHORITY

Order-in-Council under section 5 of the Agriculture Act.

RESOURCES ($ millions)

80/81	81/82	82/83	83/84	84/85
$49.8	$81.4	$3.4	$9.2	$79.5

BENEFICIARIES

Ad hoc assistance programs for 1984/85 include:

- Prairie Livestock Drought Assistance: $30.3 million (50 per cent federal share of $60 million program);
- Excess Moisture Assistance Program (Sask., Man.): $9 million (50 per cent federal share);
- Assistance to Forage Crop Producers (Que.): $27.2 million (all federal);
- Re-establishment of Apple Orchards (Maritimes, Que., Eastern Ont.): $13.5 million (all federal)

DESCRIPTION

Decisions are made on a case-by-case basis. There is no particular legislation or program or source of funds which specifically provides for ad hoc assistance.

In response to representations from producers and often from the provinces as well, the Minister of Agriculture requests approval from the Treasury Board.

The usual source of supplementary funding is the Policy Reserve of the Cabinet Committee on Economic Development, though other funding sources are often considered.

In the approval process, the Minister of Agriculture generally obtains a Order-in-Council which enables him to sign an agreement with the province(s) involved, providing for cost-sharing and program delivery.

Where possible, ad hoc assistance is administered by the provinces, since: (a) the programs are often cost-shared with them; and (b) it is the provinces which administer the crop insurance programs and who are therefore in a position to identify the eligible recipients and to determine their losses and compensation payments.

Direct federal delivery is used only in cases where the provinces decline to participate.

ASSESSMENT

In most cases, there is duplication or overlap between crop insurance and ad hoc assistance programs.

In the view of the study team, crop insurance is preferable to ad hoc assistance, since:

a. It is more cost-effective (costs are shared not only with the provinces, but also with the producers).

b. It rewards individual initiative and self-reliance on the part of producers, who make their own choices on whether or not to buy coverage.

c. It is more equitable. In the provision of ad hoc assistance, there are always problems with respect to: (i) the types of commodities and losses to be covered; (ii) the definition of the drought or flood areas to be covered; and (iii) the level of compensation for the different areas. Inconsistencies are specially evident when the provinces take a leading role and where they differ among themselves. Another problem stems from the difficulty of finding a source of funds:

over time, similar losses may be compensated in different ways, depending on the availability of funds.

Where there are gaps in the crop insurance system, there is a temporary role for ad hoc assistance. For instance, ad hoc assistance has been of particular benefit to livestock producers. The herd maintenance programs of 1980/81 and 1984/85 were designed to ensure that in the face of high local feed costs (caused by drought), producers would not have to sell off their livestock at distress prices, only to have to rebuild their herds by buying higher-priced animals in the future.

There is a standard financial assistance formula by which the Federal Government aids a province which makes emergency expenditures in the face of natural disasters. This program does not apply where crop insurance could have been purchased.

OPTIONS

The study team recommends to the Task Force that the government consider:

- Covering losses through the crop insurance system and not through ad hoc programs. (This, in fact, is government policy as of December, 1984, when the Treasury Board decided that compensation payments for forage crop producers in Quebec and for field crop producers in Manitoba and Saskatchewan should be provided "on the condition that information accompanying the payment carry the clear message that in the future, compensation will be provided only through the crop insurance system").

- Giving sufficient publicity to this requirement in order to ensure that it can be maintained in practice.

FARM FINANCE PROGRAMS

Commercial farming in Canada to-day is a complex business enterprise, typically involving a major investment of $400,000 or more which the farmer must manage with considerable financial skill to be successful. The central thrust of the Agri-Team Report is that governments should deal with the farming sector on a business-like basis, and that by doing so, the industry, governments, and Canada as a whole will benefit.

Modern Agriculture is a capital intensive business which needs access to both intermediate and long term credit, and short term working capital.

Agriculture returns are subject to wide and unpredictable variability from year to year. During the 1930's, the widespread distress of the agriculture sector led to policies and legislation protecting the farmers from financial pressures. The banks at that time substantially withdrew from the sector.

The federal response to the needs of agriculture included a direct lending agency (Farm Credit Corporation - FCC) and a short term credit guarantee plan (Farm Improvement Loans Act). Provinces also created direct lending and guarantee plans.

During the 1970's, the prosperity and growing management sophistication of farm businesses attracted the banks into a major role in providing long term credit (mortgages) to sound farm businesses with good equity positions and good track record. The banks increased the short and medium term credit available, some without assistance of any governmental guarantees, some with provincial guarantees, and only a modest amount with the benefit of the guarantees available under the Farm Improvement Loans Act. The banks also have built up staff with farm management expertise to service their farm clientele.

The high inflation rates and good crop prices of the Seventies produced a major growth in land prices. There is also an element of speculation in the spiralling land prices fed partly by long term trends and partly by the attractions of the income taxation regime, including capital gains provisions.

The result is a farm industry with total assets of well over $100 billion and with net returns estimated in the $4 billion range (only $2 billion of which is reported as income for tax purposes). The explanations for this apparent low rate of return on investment must include expectations of continuing appreciation of the farm land asset values for ultimate redemption in the form of a capital gain (for which farmers have a preferred tax provision).

Agricultural land values peaked in the early 1980s and began to fall due to weaker commodity prices and lower inflation, though real rates of interest remained high.

There are really two distinct agriculture sectors when one considers the debt-equity ratios in farm businesses. One very large group (older, well established) has low debt and hence low interest payment obligations. Lower current land values reduce their overall assets but do not threaten their business. The other sector (younger, less than 10 years in business) has bought land and production quota during the upward rise of the late 1970's. The rising asset base rather than the expected cash return on assets influenced some lenders and borrowers alike to agree to sizable loans. The cash returns under the weak commodity prices have left some producers unable to fully sustain the debt servicing. The softening land values are now putting these businesses at risk because their scope for refinancing has been narrowed or even eliminated.

The price outlook for most commodities is for only slow recovery for the next few years. With continuing high real interest rates, the downward land price correction will continue albeit more slowly, and is necessary for a healthier long term industry.

Individual farm businesses with weak debt-equity positions need the best advice available from their credit advisors (banks, for limited numbers and the Farm Credit Corporation, for a significant number) and extension staff of the province. Even if the advice is to sell, the farm will seldom go out of production.

Attempts by governments to bail out producers who have very low equity positions are very costly, are of dubious long term effect, and are very inequitable. The Assessment Note on the 1981 Farm Loans Interest Rebate Program is instructive in this regard.

Overall, the farm sector is weathering a most difficult period. The banks have only about five per cent of their accounts more than 90 days overdue. While the Farm Credit Corporation balance sheet is showing significant provisions for losses, the majority relate to the 1981 program.

The farm sector's prime long term need is for credit in adequate amounts to finance this capital intensive business, from sources who can give advice and have some flexibility when short-term market fluctuations impact on the business. The banks have confirmed that they intend to remain lenders to the established farm manager, and the FCC is well placed to advance credit and give advice to the new entrant. Provincial lending agencies and guarantee programs are also in place to round out the network.

Options

In view of this analysis the study team recommends to the Task Force that the government consider directing the Farm Credit Corporation to operate in a more business-like fashion, obtain its funds from open market borrowings and make its loans based on sound lending criteria. Over the next five years, the FCC balance sheet could improve to the point that the government could consider privitizing the FCC, possibly into an agriculture co-operative.

Where the Government directs the FCC to make loans to clients who would not meet FCC normal lending criteria, the Government should bear the risk. A Canada Account facility for such loans within the FCC balance sheet should be established which would be replenished annually for any losses from the Government's policy reserve. The costly and unsatisfactory experience of the 1981 Farm Loans Interest Rebate indicates the need for this approach.

Programs guaranteeing cash advances for Canada Wheat Board producers and producers of many other crops contain an unjustified interest-free subsidy component. The genuine need of farmers is for availablity of credit. Maintaining the guarantee to the CWB and other marketing organizations should be adequate to safeguard availability of funds from the banks.

The Farm Improvement Loans Act through its guarantee of short and intermediate term credit has been a success. The banks are fully committed to supplying this credit for the forseeable future. Accordingly, the FILA should be allowed to sunset in June 1985.

FARM LOANS INTEREST REBATE
(Agriculture Canada)

OBJECTIVE

To lend money for debt restructuring purposes to farmers in serious financial difficulty, and provide a subsidy on the interest rate for the first two years of the loan.

AUTHORITY

Farm Loan Interest Rebate Act (1982 and 1983)

Under FCC management, the Special Farm Financial Assistance Program (SFFAP) was introduced June 1982.

RESOURCES ($millions)

82/83	83/84	84/85	85/86
3.4	10.5	10.3	4.2

- funds are from Agriculture Canada
- loans were administered by FCC with existing staff.
- total rebate costs will be about $28.4 million.

DESCRIPTION

Under Sec. 11(1.1) of the Farm Credit Act, the Corporation can execute any function (agriculture) as assigned by the government.

The Department of Agriculture provided interest rebates of five percentage points for the 1982/83 program and four points for the 1983/84 program. The rebates are effective for the first two years of the loan.

FCC consolidated the debts from various creditors into one FCC loan.

The rebate program expired June 27, 1984, with no renewal facilities.

BENEFICIARIES

Of the approximately 1900 producers, about one third originated from Ontario who were principally occupied in the red meat sector.

Maximum loan is set at $350,000 per individual, i.e. normal FCC guidelines followed.

OBSERVATIONS

About 1900 loans were made for a total amount of $352 million. This was equal to about $185,000/loan.

Average customer equity was 34.3 per cent, compared to normal FCC customer with 50 per cent equity.

Those loans drawn in 1981/82/83 had higher interest rates e.g., 16 per cent plus, and when the rebate expired after two years, most of those farmers had not resolved their problems. The Minister of Agriculture subsequently in Jan. 1985 directed FCC to write down the rates of most of these customers to 12 3/4 per cent.

There are continued pressures (e.g. Provincial-Federal Agriculture Task Force, Nov. 1984) to have the program renewed with the four per cent rebate.

FCC considers the program was not effective and not well designed. It was based upon a two year turn around time (loss to viable position) which was generally unrealistic. They felt the time period should have been longer or a renewal clause put in effect.

B.C., Quebec, New Brunswick, Nova Scotia, Ontario, and Saskatchewan, have provincial programs that offer interest rebates on FCC loans.

ASSESSMENT

The SFFAP had the following negative side effects:

a. FCC assumed other creditors' problem accounts, thereby assuming some of their losses;
b. extended the life of non viable operations;
c. allowed too short a period for farm turn around and subsequently had a marginal effect overall.

Setting aside the merit of the rebate plan, the program does show that FCC can be a useful vehicle to deliver federal government programs in a direct manner to the farm sector.

It is difficult to determine whether or not a longer term rebate program would assist a significant number of clientele. The recent program may have been successful in reducing the effect that many farm failures together would have caused, that is it softened the decline in asset value.

This subsidy program was directed specifically to highly levered producers, and its benefit was over and above any other risk control management tools (such as insurance and stabilization systems).

Total projected losses from SFFAP loans are estimated to be $32.6 million over the next five years. This does not include subsidy or interest rate write-down. Unlike the write-down, FCC will be left responsible for SFAAP losses, and in fact are designing a special program under the Corporate Plan to attack this problem.

($M - Current Value)

	84/85	85/86	86/87	87/88	88/89	89/90
Total FCC expected Losses	$24	$35.2	$31.9	$13.8	$5.6	$3.7
SFFAP losses only	$3.4	$10.5	$12.1	$ 6.1	$ .5	0
% SFFAP Losses of Total	14%	30%	38%	44%	9%	0

The arbitrary write-off of about four percentage points in January 1 of 1985, is estimated to cost about $55 million (Current Value). It represents a loss in future revenues to Canada of about $16 million/year for five years ($80 million). FCC will not sustain losses because they had authority to refinance their CRF notes (at about 15 3/4 per cent) down to current rates. Rather, this loss is being borne by the Minister of Finance in his debt charges.

OPTIONS

The study team recommends to the Task Force that the government maintain the program with no change because of:

a. the small percentage of beneficiaries that in fact may not have had the management skills or resources for future success; and
b. the assumption of other debt under consolidation aggravated FCC's loss picture.

The losses incurred by this program should be debited to "Canada's Account" and not carried by FCC.

FARM CREDIT CORPORATION

OBJECTIVE

To provide financial services by way of farm long term loans and management counselling, to enable Canadian farmers to establish, develop, and maintain viable farm enterprises.

AUTHORITY

Farm Credit Act 1959

Farm Credit Syndicates Act (see FCC2)

RESOURCES ($ million)

	83/84	84/85	85/86	86/87
Net Cash Borrowings (CRF)	354	(196)	90	272

Administration Costs - $31.6 million / 659 employees (See Annex for details).

DESCRIPTION

Long term mortgage financing, with renewal terms of five, 10, or 20 years, and interest rates determined by cost of funds plus 1.25 per cent margin.

Funds are directed to those farmers who do not have the equity, or track record, normally required by private lending institutions.

Under the Regulations persuant to the Act, when FCC considers that an applicant has sufficient resources to obtain private institutional funds, they may decline assistance.

Two types of loans exist:

a. standard loans where applicants are full time farmers.

b. loans to beginning farmers (Sec. 33) where the operation must be economically viable within five years.

Maximum loans of $350,000/individual and $600,000/group. Loans secured by real estate mortgage (not

limited by Bank Act to 75 per cent market value), and supported further by chattel mortgages when required.

OBSERVATIONS

FCC has $4.6 billion in FCA loans outstanding (78,551 loans). They hold 39 per cent of long term farm loan market in Canada.

Over 50 per cent of loans (1982/83) were used for refinancing/consolidation, as compared to 30 per cent prior to 1982 and after 1983.

Demand dropped sharply in 1984/85. However, it is expected to increase gradually and significantly in 1986/87 due to expiring of temporary programs such as Small Business Bonds, (for relatively high risk clients).

Extensive amendments to FCA have been made since 1959, some resulting in terms and conditions similar to those offered in the commercial sector; i.e. prepayment penalties, shorter renewal terms with specific rates based upon the terms, and borrowing from market sources outside the Consolidated Revenue Fund.

Sixty-four per cent of recent loans were directed to cash crop farmers. Saskatchewan and Ontario represent largest section of borrowers

Five provinces have a similar type of long term financial program (Alberta, Saskatchewan, Manitoba, Nova Scotia, P.E.I.). Six provinces offer interest rebates on FCC loans (B.C., Quebec, New Brunswick, Nova Scotia, Sasketchewan, and Ontario).

ASSESSMENT

Canadian Bankers Association Agriculture Committee advises that:

- The banks seek viable, commercial farm customers with equity and track record.

- They feel that FCC does not represent unfair competition, if it remains the lender to the more "pre-commercial" farmer. This is based upon the understanding that such a customer would be commercially bankable in five years or more.

- They feel subsidy benefits are capitalized into farm assets, therefore detrimental to the industry.

FCC Operational Efficiency

Operating costs are covered by a margin of .75 per cent. This compares well with the Federal Business Development Bank that requires a margin of 3.0 per cent and banks that are estimated to require about .75-1.00 per cent

FCC losses have been historically low at .03 per cent of principal outstanding. FCC losses are increasing (with the reduced demand and loss in real estate values of farms) and are expected to peak at .7 per cent in 1985/86. They are presently being charged against FCC's Provision for Doubtful Accounts. This is reflected in the net income loss. (See Annex 1)

For comparison, recent loan losses for FBDB have been close to 3.0 per cent of the outstanding principal.

Eighty-two per cent of FCC loans are in good standing. Of the farm bankruptcies in 1984, 20 per cent (110) were FCC customers. Of these, 14 were SFFAP customers.

With reduced demand 1984/85, the net borrowings from the CRF was negative, indicating a substantial repayment was made to the CRF.

FCC personnel are trained in financial and production management relevant to agriculture. With 250 advisors in the field as compared to 150 bank agrologists, FCC is better equipped to offer a good range of advisory and farm management services. In effect, FCC must be more skillful than the banks to assist its clientele through to commercial success. They are also the obvious tool with which Agricultural Canada can conduct field studies in farm finance.

POLICIES

FCC is required as a Crown Corporation to maintain a reasonable return on capital. This tends to clash with their requirement to lend to higher risk customers when that is interpreted as requiring a preferential interest rate.

Since the Ministers of Finance, and Agriculture and the President of the Treasury Board approve the FCC annual plans, these three Ministers provide the policy direction to FCC.

Officials of the central agencies have reacted negatively to FCC's past pressures for money from the Consolidated Revenue Fund. These pressures were interpreted to be a result of loans stimulated by the preferred rates. The preferred rates, inadequate margins, as well as marginal loans, are a result of government direction.

OPTIONS

The study team recommends to the Task Force that the government consider the following changes in preparation for possible future privatization:

a. Eliminate CRF borrowings. A strategy for obtaining its funds from private markets would remove demands on the CRF. Access to the CRF for new borrowings would be limited for liquidity within the fiscal year. This would encourage the Corporation to base its lending rates upon market forces, and to move away from long term mortgages fixed for 20 years.

b. "Canada Account". If the government decides that a subsidy or special assistance program be undertaken and implemented through FCC, full costs should be borne by the Government of Canada. For example, the Special Farm Financial Assistance Program is estimated to cost FCC some $32.6 million over the next 8-10 years. Such losses should be covered by a "Canada Account".

c. A third requirement is to achieve reasonable return on funds. With an appropriate operating margin such as 2 per cent above the cost of funds, losses can be reduced at a faster pace, putting the corporation into a strong position over the next five years. With a better balance sheet, FCC could attract equity capital sooner from the banking and farming community, agri-business, and provincial governments.

Financial Impact of the Option

	84/85	85/86	86/87	87/88	88/89
a) Eliminate CRF Borrowings:					
Net Cash CRF	(196)	0	0	0	0
Net Market	254	130	272	300	306
b) Net Incomes:					
Current Corporate Plan	(18.7)	(6.2)	(8.0)	(3.8)	3
1. SFFAP-Canada Account	(18.7)	(1.9)	(5.0)	(2.6)	3
2. SFFAP-Canada Account and + 2 % Margin	(18.7)	(.2)	(1.4)	4.9	14.6

* The above figures are rough estimates for reference purposes only, and detailed projections would have to be completed by FCC.

** Positive returns would first be used to increase capital support and improve cash flow.

ANNEX 1

A. 1984 Resources:

	B.C.	Prairies	Ont.	Que.	Atlantic	Head Office	Total
PY's	20	246	117	89	26	161	659*

* as a Schedule D Corporation person-year controls are not applicable
  $31.6M operating costs are covered by net income

B. Source of Funds: ($ millions)

	80/81	83/84	84/85	85/86
*1. Net borrowing from CRF	265	354	(196)	90
2. Net borrowed (markets)	NIL	256	254	40
3. Repayment from borrowers	124	230	172(estim)	120
Total funds available for loan approvals	389	840	230(estim)	250
5. Loan Demand	509	779	230	250

* Key Variable, traditionally controlled by Minister of Finance

C. Proposed Corporate Plan (1985-1990):

($ millions)

	84/85	85/86	86/87	87/88	88/89	89/90
1. Loan Demand	230	250	450	514	549	582
2. Net Income before taxes	(18.7)	(6.2)	(8.0)	(3.8)	3	11.7
3. Return on Contribution Capital	(9.19%)	(2.96%)	(3.67%)	(1.67%)	.66%	2.47%
4. Net Cash CRF	(196)	90	272	300	306	309
5. Net Market borrowings	254	40	* Net funds to come from CRF and/or market.			

D. Loan Losses:

	Pre81	81/82	82/83	83/84	84/85	85/86	86/87
1. Losses as a % of total principal outstanding	.04	.08	.2	.3	.52	.7	.6
2. Total Losses (Current values $M)	1.5	3	8	13.7	24	35.2	31.9
3. Losses from 12.1 SFFAP only					3.4	10.5	12.1

FARM SYNDICATES CREDIT

OBJECTIVES

The Farm Credit Corporation is authorized to make intermediate term loans available to syndicate farm groups, with the objective of reducing the risk and high capital cost of machinery on individuals.

AUTHORITY

Farm Syndicates Credit Act, Dec. 1964

Administered under the Farm Credit Corporation (see FCC-1)

RESOURCES ($ millions)

	81/82	82/83	83/84	84/85
				1.5
Loan Approvals	5.6	2.3	2.9	1.5 (estim)
FCC non-budgetary funds/Administration costs included in FCC costs				
Profit (Loss)	.113	(.117)	(.178)	

DESCRIPTION

A minimum of three members are required to form a syndicate.

A syndicate may borrow up to 80 per cent of capital cost to a maximum of $100,000, based upon a maximum of $15,000 per member.

Repayment terms are set at 15 years maximum for fixed improvements and seven years maximum for mobile machinery.

Loans are non-amortized with interest compounded annually or semi annually. They are secured by a promissory note, and perhaps mortgage security.

A service charge of 1 per cent of the loan amount is made at the outset.

OBSERVATIONS

A total of 2,862 FSCA loans have been approved for $53.3 million since 1964.

In the last two years, the number of loans approved has dropped to historically low levels with 92 loans approved for $2.9 million in 83/84. Previously, about 150 loans were made per year, totalling about $4 million/year.

ASSESSMENTS

Lack of use has been the result of:

- reluctance by farmers due to anticipated difficulty in shared use
- lack of knowledge about the program in the community
- less need for shared equipment with increase in farm size
- low loan limits relative to high machinery costs
- lack of promotion by FCC staff

Because of the large capital costs of present day farm machinery, as well as the cash flow problems evident in some sectors, this program's objective should be more relevant now than during the inflationary 1970s.

A 1984 FCC study has recommended the following:

a. reduce the number of syndicate members, as requred for eligibility, from 3 to 2. The two members would have to be operating separately viable unit farms.
b. increase the loan limits from $15,000 per member to $50,000 per member with the maximum per syndicate set at $500,000. The limits have not been changed to reflect inflationary effects since 1964.

It is difficult to estimate how such change would impact program usage; however, even though the FSCA total limit would have to be increased, there would not be extra demand on the CRF if all FCC funds were to be obtained from private markets.

The operation has been profitable until 1983/84 and 1982/83. Losses during this period are due primarily to the

Provisions for Losses. Net loss on income could be further prevented by allowing FCC to establish proper lending rates and fees.

This program should be continued because of a) the low operating costs and b) the value to a small but potentially larger group of farmers.

OPTIONS

The study team recommends to the Task Force that the government consider maintaining the program and significantly upgrading it for greater marketability by:

a. reducing the number of syndicate members, as required for eligibility, from 3 to 2; and
b. increasing loan limits per member to $50,000, and per syndicate to $500,000, whichever is the lesser.

This continuation should be based solely upon FCC being given the authority to set its own rates and fees, with the aim of maintaining profitability.

This new program should have a three year sunset provision, to be renewed at that time only if there is significant clientele.

FARM IMPROVEMENT LOANS

OBJECTIVE

To increase the availability of short and intermediate term credit to farmers by providing a government guarantee and thereby reducing lender risk.

AUTHORITY

- March 1, 1945 for 3 year term
- received 12 more periods, with last period July 1, 1983 to expire June 30, 1985.

RESOURCES

84-85 projections

1.	Claims	$5,700,000
2.	Collection recoveries	(300,000)
	Net claims	$5,400,000

Operating costs (salaries, etc.) $200,000/5 PY's

DESCRIPTION

- Maximum loan $100,000 at interest rate of Prime + 1 per cent
- Loans can finance up to 75 per cent cost of chattels, 90 per cent real estate
- Repayment 15 years land, 10 years other purposes
- Bona fide farmer eligibility for farm improvement purchases, excluding refinancing.

Applications, as approved by bank branch managers, are forwarded in a brief form, to include item description and cost. Claims are forwarded by branch manager to the Farm Development Division of Agriculture Canada and cheques are returned usually within two weeks.

A total of 15,100 loans were made in 1983 for a sum of $208 million, with an average loan size of $13,755. By "reducing lender risk", the program had the original objective of inducing bank participation in agricutural short/intermediate term credit, but has now (since 1981) assumed the objective of maintaining bank participation.

The original objective has been reached:

a. chartered banks now extend 66 per cent of the total short and intermediate term debt
b. the banks' total agricultural lending portfolio has increased to such a degree that only 6.4 per cent of their loans are under the Act. In 1966 the ratio was about 44 per cent.

The number of Farm Improvement loans made has decreased continuously since 1965 (although amount per loan has increased); however in 1981, the decrease stopped. Due to the serious farm financial situation that developed and depreciation of assets, the banks have maintained similar farm improvement activity since 1981.

Claims, due to farm failure, have doubled each year since 1981 and are expected to reach a high of $5 million in 1985. However losses after recoveries had still amounted to less than 1 per cent in 1983. Since 1945 the average loss by claims has been .2 per cent of loans made.

Because of the current problems in the agriculture sector, utilization has remained steady and may increase; however it still remains that the banks now have well developed agricultural lending programs.

BENEFICIARIES

The study team estimates that the primary users of the program are highly levered cash crop farmers in the prairies, especially Saskatchewan where no comparable provincial plan exists. Eighty-one per cent of FIL loans are held west of Ontario ($170 million out or $203 million). Seventy-one per cent of the claims in 1983 occurred west of Ontario.

Normally, bank rates on a term loan would be Prime + 1½-2 per cent for an average customer. Prime plus 1 per cent would be granted to a preferred low risk customer. Thus the plan benefits the high risk farmer, who

could possibly be charged up to Prime plus 3 per cent under normal lending practices.

Quebec has a similar program, the Quebec Farm Improvement Loans Act. Terms are similar, except interest rates are Prime plus .5 per cent and subsidized by 3 per cent for the first $15,000. Quebec producers still have about $9 million outstanding under the previously-established federal plan.

Other loan guarantee programs by provinces:

a. B.C. - directed to those unable to obtain normal financing
   - to a maximum of $300,000
b. Alta - a) as above, but no maximum and b) similar to FIL program
c. Sask. - only for livestock operations, no maximum at less or equal to Prime plus 2 per cent
d. Man. - limited to $60,000, includes operating credit
e. Ontario - has operating loan guarantee, but no intermediate loan guarantee similar to FIL
f. Atlantic - Nil.

ASSESSMENT

Careful lending practices should be executed by all lenders in any event; the Bankers Association advises that availability of a guarantee will not significantly affect volumes of loans to farmers.

If the program is not renewed, there could be negative reaction from cash crop farmers though banks will continue lending. Long-term impact on the economy will be negligible.

The study team on Business Subsidies and Services proposed continuation, with user fees and reduced guarantees, for Business Improvement Loans under the Small Business Loans Acts. That loan activity is about 3 -4 times the level of FILA, and has ten times the losses.

The Fisheries Improvement Loans Act runs concurrently with the Farm Improvement Loans Act, with the same objectives, but directed to fishermen and the fishing industry. Its expiry date is also June, 1985. Fisheries

loan activity is a tiny fraction of FIL ($11 million loans outstanding) but with proportionately higher losses.

Continuance of the FIL program by introducing a fee system is not recommended as it would tend to negate some of the benefit.

The administration of the claims payments is not linked to other Agriculture Canada programs. FIL could be administered by FCC equally or more efficiently, and be a consolidation of financial programs (even if only for the wind-up phase implied by the option).

OPTIONS

The study team recommends to the Task Force that the government consider allowing the program to expire and transferring the administration of the claims payments to Farm Credit Corporation.

ADVANCE PAYMENT FOR CROPS
(Agriculture Canada)

OBJECTIVE

The Advance Payment for Crops Program has two objectives:

a. to improve the orderly marketing of storable crops by encouraging producers to store their crop after harvest, and

b. to strengthen, or induce the establishment of, producer organizations.

AUTHORITY

Advance Payment for Crops Act 1977

RESOURCES ($ millions)

	82/83	83/84	84/85 (Projected)	85/86 (Main Estimates)
Contributions	6.9	4.3	8.0	12.0
Operating cost	.1	.1	.2	.4
Person-Years	2	2	4	7

DESCRIPTION

Based upon a crop in storage, a producer can obtain an interest free loan from his producer organization. It is repayable from the proceeds of his earliest crop sales. This allows the producer to sell under more optimal market conditions rather than to solve a cash-flow problem at harvest time.

A producer may receive various crop advances of up to $15,000 per year, a partnership $30,000, and a corporation up to $45,000. The amount of the advance is also restricted to 50 per cent of the expected market price of the crop.

Crops on which advances are to apply must be stored in their natural or unprocessed form. The Act applies to all

storable crops except wheat, oats and barley within the Canadian Wheat Board designed areas.

The producer organization borrows funds from a chartered bank at Prime plus 1-2 per cent and lends to members interest free. The bank claims all interest costs directly from Agriculture Canada on a monthly basis.

The producer organizations normally charge a fee to their members for participation to cover the administration costs as well as a) the aggregate liability of 5 per cent of funds loaned to the organization, and b) 10 per cent of any loan and accrued interest defaulted by an individual producer.

OBSERVATIONS

The benefits of such a program to producers are:

a. ability to postpone crop sales immediately after harvest to avoid depressed harvest period prices improve, at no interest cost for a portion of the crop
b. cash advances available at harvest time to cover short term obligations,
c. incentive provided for producers to establish a producer organization, which can assist members in traditional ways, e.g. marketing, information gathering, and information sharing.

There are 48 producer organizations currently involved, with a total of about 15,000 producers participating. This is estimated to account for about 30 per cent of the producers of those commodities.

The more successful farmers have tended not to participate due to:

- limited amount of advance available,
- operating cash not a problem.

ASSESSMENT

The orderly market concept is based upon the fact that:

a. a producer can better afford to store his crops until he feels the price is best. This is

significant, as the decision of determining when to sell remains with the producer,

b. the industry will not dispose of most of its product on the market at harvest time and suffer a price drop,

c. consumers and processors will have the opportunity to purchase the crop well past harvest time.

The effect of the program has generally been positive in reaching these objectives.

The program has been quite effective in encouraging producer organizations and producers to form such organizations. Most of the storable cash crop producers are now organized in such a way as to access the program.

With one harvest per year, it is beneficial for the producer to obtain advanced funds to assist in the cash flow. The banks do not wish to advance funds on securities that have been previously encumbered. Even if unencumbered, it is generally difficult to obtain bank loans on a crop inventory. The APCA therefore offers the facility for such a proceedure.

The interest subsidy could be cancelled. With the government guarantee, and the backing of the producer organization, a reasonable rate of interest (i.e. Prime plus .5 per cent) could be continued and passed on to the producer. The financial savings of this Option compared with the approved 1985-86 Main Estimates would be $12.0 million. New legislation will be required.

The above alternative would:

a. allow the producer to obtain funds in advance for cash flow requirements at an attractive commercial rate,
b. allow the producer to hold his crop,
c. encourage the establishment of producer organizations which assist in marketing.

If advance maximums were to be doubled, the demands for contributions will probably increase substantially. The benefit of an interest free loan on $30,000 for 5 months would be about $1,500. (15,000 producers x $1,500 = $22.5 million.)

Programs to promote better on-farm storage facilities have provided an alternative as well as complemented the APCA benefits.

OPTIONS

The study team recommends to the Task Force that the government consider introducing a revised, non subsidized program whereby the producer can obtain advance funds from his producer organization at an interest rate reflecting low risk. This would be based upon a government guarantee to the producer organization. Maximums for such guarantee assistance should be increased.

This option is consistent with the proposal to cancel the Prairie Grain Advance Payment program and its subsidy for western grain producers.

PRAIRIE GRAIN ADVANCE PAYMENTS
(Agriculture Canada)

OBJECTIVE

To provide an interest-free recoverable cash advance to Western grain (wheat, oats, barley) producers to assist cash flow while they hold their inventory on the farm until delivery quotas are open.

AUTHORITY

Prairie Grain Advance Payments Act 1957

RESOURCES **($ million)**

	83/84	84/85 (Projected)	85/86 (Estimated)
Contributions	9.3	10.0	14.0

P.Y. - NIL. The Act is administered by the Canadian Wheat Board out of revenues from grain sales.

DESCRIPTION

The producer signs an undertaking with the CWB that he will deliver his crop to an authorized elevator agent. The agent verifies the financial status and the stored inventory of the producer, and issues the advance cheque on behalf of the CWB. The CWB in turn reimburses the agent.

The CWB maintains all records in a separate account, and forwards the statements to Ottawa to claim for the interest costs incurred. The CWB covers all administration costs, estimated to be about $1 million per year.

Maximum advances are $30,000 for individuals, $45,000 for a partnership and $90,000 for a corporation. The advance payment rate is based upon 2/3 of the "initial" payment as determined in the spring of each year. The total advance then is based upon this rate, yields per quota acre farm, and the acreage levels as it pertains to this purpose. Roughly it works out to 50 per cent of the expected price per bushel.

OBSERVATIONS

The program is based upon the Crop Year, August 1 to July 31. The demand for the advance payment tends to peak in November. So far in 1984/85, about $199 million has been advanced to 16,952 applicants. Sixty-four per cent of that was repaid by January 1985.

Over 8,000 Saskatchewan producers applied for the advance, as compared to about 4,000 in each of Manitoba and Alberta, and 300 in B.C. The average advance overall per application was $11,700 in 1984/85, and subsequently the average benefit will be about $590/producer.

The proportion of CWB permit holders who applied for cash advances has decreased overall from 65 per cent in 1969/70 to 20 per cent in 1983/84. This crop year, there were good delivery quotas because of good export movements, and only 11 per cent applied.

About 7 per cent of the grain sales have been covered by advance payments in recent years.

Over 99.9 per cent of the advances are repaid. Defaults are very small. A penalty interest charge of the CWB corporation rate plus 1 1/2 per cent is levied against late repayment.

There is normally an amount due at the year's end. For example, $2.7 million is still outstanding from the 83/84 crop year.

ASSESSMENT

Usage tends to reflect delivery opportunities. If delivery quotas for a producer do not open up until a later date, then he will more likely apply for the subsidy to assist him with cash flow until delivery is permitted. His alternative for cash flow relief is for selling heavily onto cash markets and thus depressing this market.

The difference from the objectives of the Advance Payments for Crops Act where there is also an interest subsidy, is that there is no scope for development impact with the CWB in place.

Participation in the program has declined since 1970 for various reasons. Generally improved sales and marketing opportunities have evolved. Western grain producers have benefitted from other programs such as the Western Grain Transportation Act which is designed to remove transportation blockages to grain deliveries. Insurance against slow export deliveries (as well as low export prices and rising cash costs) is now available with federal subsidy through the Western Grain Stabilization Act. There is also federal export credit, and initial payment guarantees to the CWB.

Agriculture Canada analysis shows that the grains and oilseeds commodity group receives a disproportionately large share of federal financial assistance (65 per cent of federal commodity expenditure in 1982/83 compared with 37 per cent of farm cash receipts accuring to this commodity group).

The program is considered desirable by the majority of Western grain producers.

In the view of the study team, the subsidy does not have a positive development impact.

OPTIONS

The study team recommends to the Task Force that the government consider cancelling this program. This will require legislative change. Because the CWB has preferred bank rates, it could operate its own advance payment system. This is consistent with proposals relating to the Advance Payment for Crops Act.

TAX EXPENDITURES PROGRAMS

INTRODUCTION

A number of tax expenditure provisions in the Income Tax Act apply specifically to farming. These farm income tax provisions can usefully be divided into 3 groups: a) Accounting and Income Averaging, b) Capital Gains; and c) Other Deductions and Deferrals. In addition, there is an Excise Tax provision allowing a rebate on fuel taxes. Each group is described below, along with the study team's conclusions.

Accounting and Income Averaging

Due to the cyclical nature of the agricultural industry, farm incomes have a long history of considerable fluctuations from year to year. Unincorporated farmers, as a result, could be faced with higher taxes on average due to the progressive structure of marginal tax rates. In these circumstances, farmers have long been permitted to average their income under a variety of special tax provisions which are not available to other taxpayers.

Besides special tax provisions that help average income flows for tax purposes, there are now direct federal expenditures that (at least in principle) assist in stabilizing farm revenues. The result is a fundamental overlap between income tax measures on the one hand which allow farmers to average income, and in fact obtain tax deferral benefits, and on the other hand direct spending and regulatory programs which stabilize farm revenues.

The major provision for income averaging is that farmers are allowed to use cash basis accounting methods rather than accrual accounting. In addition, and to offset some of the effects of cash accounting, there are four other provisionswhich give farmers special flexibility in timing the recognition of income for tax purposes.

Cash-basis accounting, as compared to accrual accounting, can distort purely market-driven decisions. A number of farm organizations have raised these concerns about cash-basis accounting. The study team concluded that the government consider amending the Income Tax Act to require, that all farming businesses report their income on an accrual basis, rather than on the cash basis currently

permitted. Given this change to accrual accounting, the Income Tax Act can be simplified.

Capital Gains - Discussion

Two specific items have been addressed by the study team, the intergenerational rollover and the capital gains reserve. The hobby farm issue is touched upon briefly at the end.

The existing rollover provisions, as partial relief from tax on capital gains, have had perverse impacts on the farming sector. Further widening these exclusions would worsen these perverse impacts. The reason, simply, is that tax benefits such as these tend to become capitalized. That is, they drive up the price of farm land. This has a dual impact. First, it becomes harder for new entrants to become farmers; it saddles them (and over time the farming sector) with higher debt servicing costs. Second, the apparent rationale for exemptions from capital gains tax is strengthened since the prospective capital gains tax liability is larger. This is a vicious circle, and one that is not easily cut.

As a general theme, the study team's objective is to encourage productive investment, not to reward passive speculation. The goal of the tax system should be to stimulate the efficient use of land, not simply the holding of land. It is on this basis that the Ontario Farmers' Association, the Canadian Cattlemen's Assocation, and Coopers and Lybrand have all testified before the House standing committee against widening the capital gains exclusion on farm land.

For these reasons, the study team concluded that the government should consider a phased narrowing of the scope of the rollover provisions. To provide relief from the bunching of tax liabilities associated with a capital gain realization, there should be enhanced access to forward averaging proposed earlier in connection with a shift to accrual accounting. As well, consideration could be given to a modest enrichment of the capital gains reserve provisions.

Other Income Tax Deductions and Deferrals

In addition to the two broad groups of tax expenditures directed to the farm sector already discussed, the study team has considered several other provisions:

a. quota depreciation,
b. clearing and improving land,
c. pre-productive stage expenses.

These three tax expenditures do not appear to provide good value for taxpayers' money. Unless a careful evaluation can show otherwise, the government should consider terminating them.

Part-Time Farming and Section 31 of the Income Tax Act

The part-time or hobby farming issue has not been addressed so far. The reason, simply, is that half to three-quarters of the tax advantage of tax shelter farming would disappear if all the above options were implemented. As a result, we can put forward the following proposal:

Provided the options above are implemented, the restricted farm loss rules in Section 31 of the Income Tax Act could be eliminated for farms that had adopted accrual accounting. On the other hand, consideration could be given to allowing farms to continue to use cash-basis accounting provided the loss restrictions are strengthed such that no other income could be sheltered from tax by cash-basis farm losses.

Fuel Tax Refunds and Rebates

Under a provision in the Excise Tax Act, farmers (among others) are allowed special exemptions from federal taxes on gasoline and diesel fuel for both on- and off-road use for business purposes. These provisions will cost about $135 million per year. Part of these tax exemptions will sunset at the end of 1986. (The value of these tax exemptions may be reduced as a result of the recently negotiated energy package.) These exemptions were introduced in the mid-1970s in response to the "energy crisis". Given that 10 years have passed, the farm sector has had sufficient time to adjust to more expensive energy. They should by now be using more fuel-efficient vehicles and equipment. There is

no convincing economic rationale to continue subsidizing their energy costs through these tax exemptions. Thus, the study team concluded that the government consider not renewing the sunsetted provisions and eliminating (for all taxpayers) the remaining tax exemptions for gasoline.

FUEL TAX REFUNDS AND REBATES

OBJECTIVE

To reduce fuel costs for producers.

AUTHORITY

Excise Tax Act (as consolidated in 1983 and as further revised by Bill C-17, December 19, 1984);

New regulations being made (in 1985) under the Energy Administration Act.

RESOURCES ($ millions)*

	83/84	84/85	85/86	86/87
Gasoline Excise Tax Refund:				
Foregone Tax Revenues	35	35	35	35
Administration Costs	2.4	2.4	2.4	2.4
PYs	82	82	82	82
Fuel Tax Rebates:				
Foregone Tax Revenues	0	0	100	100
Administration Costs	0	1.3	47.7	5.7
PYs	0	6	213	159

* The foregone tax revenues represent only the agricultural portion of these programs, whereas the PY's and administration expenses are for the programs as awhole.

PROGRAM DELIVERY AND ADMINSTRATION

Excise tax refunds (Gasoline: Under this program, the federal excise tax (1.5 cents per litre) is refunded for business purposes for both on highway and off highway uses. Recipients of such refunds include farmers (35 per cent); fisherman (10 per cent); industrial users (10 per cent); commercial users such as salemen and taxi drivers (40 per cent); and professional and charitable organizations (5 per cent). Refunds totaled $95 million in 83-84, with approximately $35 million going to farmers.

Eligible recipients send their claims in to National Revenue (Taxation). Claims are checked by the computer for "reasonableness", and potential problem cases enter a "processing mode" in which the claim is checked by a clerk and then by an auditor, if necessary. (This is done by the Customs and Excise component of National Revenue).

Fuel Tax Refunds (gasoline and diesel Fuel): For off-highway uses only, farmers and other primary producers (including corporations) are exempted from recent increases of 3 cents per litre for the sales tax and 1.8 cents per litre for the Petroleum Compensation Charge. Farmers are expected to account for approximately $100 million of the $180 million in annual rebates over the next 2 years.

There are two types of procedures which recipients may follow:

1. making a claim to National Revenue, in much the same way as for the excise tax refund (as described above).
2. Arranging for an immediate credit: Those who purchase fuel in bulk on a regular basis may apply for a bulk buyer's permit which will enable them to obtain an exemption for each eligible fuel purchase.

This program is subject to a sunset provision. Unless renewed, it will terminate on December 31, 1986.

ASSESSMENT

These rebate/refund programs basically provide general subsidies or cash grants averaging approximately $350 per farmer. These tax subsidies are based on fuel usage and are unrelated to the income or economic circumstances of the recipients.

The gasoline excise tax refund was instituted in 1975. At that time (during the energy crisis), fuel taxes were being increased in order to discourage energy consumption; but it was felt that commercial users should not be penalized when purchasing fuel for business purposes. This rationale may have been valid in the short run; but 10 years later, it can be said that commercial users have now made (or ought to have made) the necessary adjustments to higher fuel prices. In view of this, there is no convincing

rationale for continuing to subsidize their energy costs through the excise tax refund.

When the fuel tax rebate was instituted in December, 1984 (pursuant to commitments made during the election campaign), it was as a short term or transitional measure to ease the impact of fuel price rises steming from recent increases in the sales tax and the Petroleum Compensation Charge. As orginally intended, this program should be allowed to expire on its "sunset" date of December 31, 1986.

Compared to other agricultural programs, and considering their relative benefits, these subsidies are an extremely expensive way of assisting farmers; e.g. their annual cost is close to what the government spends on major programs such as Crop Insurance or Western Grain Stabilization.

These rebate programs are open to misuse, given the problem of distinguishing between fuel which is used for business purposes and fuel which is used for personal purposes. In order to minimize the potential misuse, it is necessary to have a relatively high level of audit coverage; this increases the expenditures and personnel requirments for administering these programs.

The administration of these two refund/rebate programs is separate. It would be a very complicated and difficult task to administer the two programs as one. This is because: (1) the classes of recipients are different; (2) the terms and conditions are different, e.g. one program is limited to off highway uses, whereas the other is not.

OPTIONS

The study team recommends to the Task Force that the government consider:

- allowing the Fuel Tax Rebate program to expire as planned in January 1986.
- Eliminating the Excise Tax Refund program, at the earliest opportunity, noting that this would in effect constitute a broadening of the base for the gasoline excise tax.

FARM TAX PROVISIONS

A number of tax expenditure provisions in the Income Tax Act apply specifically to farming. These farm tax provisions can usefully be divided into 3 groups: a) Accounting and Income Averaging; b) Capital Gains; and c) Other Deductions and Deferrals. Each group is described below, along with the study team's conclusions.

ACCOUNTING AND INCOME AVERAGING

Due to the cyclical and unstable nature of the agricultural industry, farm incomes have a long history of considerable fluctuations from year to year. Unincorporated farmers, as a result, could be faced with higher taxes on average due to the progressive structure of marginal tax rates. Incorporated farmers might also be affected to the extent they are limited by the loss carryforward and carryback rules (though these have recently been extended). In these circumstances, farmers have long been permitted to average their income under a variety of special tax provisions which are not available to other taxpayers.

Besides special tax provisions that help average income flows for tax purposes, there are now direct federal expenditures that (at least in principle) assist in stabilizing farm revenues. Crop Insurance programs help to reduce the risk of sharp financial loss involved with natural hazards; ASA and WGSA and stabilization plans help crop and livestock farmers to limit the short term profit squeeze from falling prices and rising cash costs. The red meat industry would similarly benefit with the proposed tripartite stabilization plan. Supply management provides a stable marketing environment, and as a result more stable revenues. The result is a fundamental overlap between income tax measures on the one hand which allow farmers to average income, and in fact obtain tax deferral benefits, and on the other hand direct spending and regulatory programs which stabilize farm revenues.

The major provision for income averaging is that farmers are allowed to use cash based accounting methods rather than generally accepted and prescribed accrual accounting. In addition, there are four other provisions which give farmers special flexibility in timing the recognition of income for tax purposes:

a. five year block averaging,
b. flexible livestock inventory accounting,
c. deferral of income on grain sales, and
d. deferral of income on forced livestock destruction.

Cash-basis accounting and the last three provisions above provide tax averaging by way of tax deferrals. This results in greater revenue costs than if farmers were simply to pay tax on time but at average tax rates.

Cash Basis Accounting

Under generally accepted accounting principles, business expenses are deductible in computing income only if they bring to the business a value that is consumed in the year. This principle, also used for tax purposes, requires businesses to use some form of accrual accounting for measuring income. A primary goal of accrual accounting is the proper matching of revenues with expenses.

Cash-basis accounting is permitted for farmers and fishermen and is a departure from this principle. It has two principal aspects. First, instead of reporting income when earned and deducting expenses when applied to the business, farmers report income when actually received and deduct expenses when paid. Thus, sales on credit are not included in income until the proceeds are received, and expenses are deducted when paid even though they relate to future years. Revenues and costs can be manipulated simply by altering the timing of the transaction.

The second and more significant aspect is that inventory purchases are fully deductible in the year. Under the accrual method, the cost of inventory may in effect only be deducted in the year the merchandise is sold, reflecting the fact that the purchase of inventory is merely a change in the composition of assets, from cash to materials, with no effect on the net asset position of the business.

Cash-basis accounting allows those reporting farm income an extended deferral of tax. The tax on a farmer's income can be deferred through the purchase of farm inventory before the year-end. While these rules were introduced to benefit full-time farmers, they can also provide a significant tax advantage to part-time and tax shelter farmers with high off-farm income. For example, a person with other sources of income could invest in

livestock and deduct the cost against his other income. Thus, notwithstanding the fact that the livestock is still on hand, for tax purposes a farm loss is created.

Cash-basis accounting, as compared to accrual accounting, can cause perverse behaviour in response to market signals. For example, in a period of falling profits where it would make economic sense for a farmer to sell off some livestock inventory to avoid difficulty paying interest, cash-basis accounting would trigger an income tax liability, thus pushing farmers to hold on longer and thereby put themselves in a more precarious financial position. In the case of feed lot operators, tax planning under cash-basis accounting can set up incentives that exacerbate livestock cycles. A number of farm organizations have raised these concerns about cash-basis accounting.

One of the major advantages cited for the cash method is that it is simpler for the farmer: costs and revenues can be accounted exactly as the transactions occur. This claim about simplicity does not ring entirely true; all other businesses, including small businesses, have been able to cope with accrual accounting. The major benefit of cash accounting is tax deferral. A large volume of expenses, particularly for inventories, can be deducted well in advance of the resulting revenues. Since inventories tend to grow over the long run, a large pool of deferred tax has built up.

Evidence from accountants suggests the cost of having a cash-basis tax return prepared for a typical farm with $100,000 of sales would be about $400, while costs of an accrual-based return would be about $1,200. These tax return preparation costs are tax deductible. While accrual-based accounting is somewhat more complex and expensive, it results in a reasonably standardized and fairly representative financial picture of the business. Indeed, this is the objective of the accounting profession. Cash-basis accounting, on the other hand, is not standardized. Cash-basis accounting often results in misleading signals regarding a farmer's profitability (e.g. no account is taken of receivables or payables) and his financial position as reflected in his balance sheet (e.g. no data on inventory). A tax-minimizing strategy under cash-basis accounting tends to result in lower taxes being paid than under accrual accounting, but because of the misconception of profitability also tends to result in lower cumulative income after tax. One analysis suggests that

over the long run, a move to accrual accounting could result in a 50 to 100 per cent increase in tax revenues. At the same time, the increase in the efficiency in economic decision making in the agricultural sector would result in increased after-tax incomes (even with the higher taxes).

Leaving aside the revenue costs of cash basis accounting, it has also increased the complexity of the Income Tax Act. In particular income deferral provisions are required only because the relatively onerous impact quota deliveries of certain grains and forced destruction of livestock have in the context of cash accounting.

Commercial farming in Canada to-day is a complex business enterprise, typically a major investment of $400,000 or more which the farmer must manage with considerable financial skill to be successful. The central thrust of the study team's report is that governments should deal with the farming sector on a businesslike basis, and that by doing so, the industry, governments, and Canada as a whole will benefit.

There is general agreement that accrual accounting is a superior basis for managing a business enterprise. It is the generally accepted means of accounting and the prescribed means of reporting income under the Income Tax Act for businesses. Notwithstanding the advice of farm management experts, and the need for this information when negotiating a loan or mortgage from a bank or FCC, the bulk of farmers are unlikely to move their financial planning and management over to an accrual basis unless the Income Tax Act obliges them to report their income on that basis.

The total volume of farm inventories is now in excess of $10 billion. A switch from cash to accrual accounting would ordinarily result in this $10 billion of previous deductions coming back into income for tax purposes. In turn, assuming an effective 10 per cent rate of federal income tax, this would mean a one time tax liability of one billion dollars. If this were allowed to be spread over 10 years, it would amount to $100 million additional federal revenues per annum. There would be associated provincial revenue gains of about $35 million per year for the 10 year period.

Five-Year Block Averaging

All full-time farmers are permitted to average their income over five-year periods. This generous method of averaging is permitted partly to offset the "lumpy" incomes created by the cash method of accounting and partly to offset income fluctuations due to the vagaries of weather, nature, and the market. The provision is only available to unincorporated farmers. It results in reduced tax payable or income tax refunds.

The provision is complex, particularly the interaction with various tax credits. It apparently requires about 10PYs in Revenue Canada to administer, and results in federal revenue of costs about $20 million. This form of averaging has become largely redundant given the many programs which stabilize farm revenue. It is also less relevant with a move from cash to accrual basis accounting. Furthermore, the generallly available forward averaging system could easily be amended to provide enhanced access for income from farming.

Flexible Livestock Inventory Accounting

Farmers who are using the cash-basis method of accounting are allowed to depart from it and add to their income in any year any amount between zero and the fair market value of their livestock. This concession is intended to ensure that start-up losses incurred by a livestock producer do not expire because of limitations on the number of years losses may be carried forward or back. However, the loss carryforward period has recently been extended from 5 to 7 years, and the loss carryback from 1 to 3 years. The provision also serves as a general income averaging mechanism for farm income. For example, it can enable a farmer to adjust his net income such that personal exemptions can be fully utilized and C/QPP and RRSP contributions can be made. Incorporated farms, which cannot use the five Year Block Averaging Provision, find this a useful tool to claim unused losses or smooth out income. The rationale for this provision is closely linked to cash accounting; with a move to accrual accounting, the provision would not be required. No data are available on the revenue or administrative cost of this provision, nor on the extent and nature of its utilization.

Deferral of Income on Grain Sales

Where a farmer delivers certain types of grain to a licensed public elevator or a process elevator and receives a deferred cash purchase ticket, a special provision in the Income Tax Act provides that the amount of the ticket can be deferred until the following year, contrary to ordinary accounting and income tax practice. The original purpose of this section was apparently to encourage grain deliveries. Otherwise, grain farmers on cash basis accounting might hold grain off the market during the latter months of the year in order to gain a better tax position in the following year. The reason grain deliveries in Western Canada were given special treatment is because they are governed by a delivery quota system. A producer must deliver within certain time periods or else forfeit the delivery opportunities pertaining to those periods. Thus such farmers often found themselves with competing priorities as between sales and tax planning. (In fact, the problem really was concentrated in one year in the early 1970s when there were large sales committed to the Soviet Union, and grain revenues had already been high.) If accrual accounting were required, these competing priorities would disappear and the provision would no longer be necessary. The estimated revenue cost of this provision is $20 million per year. Other producers and producers of other crops are pressing to have this provision broadened and extended.

Deferral of Income on Forced Livestock Destruction

This provision gives some tax relief to those producers who have had to destroy livestock inventory as a result of government policy such as a specific disease eradication. Where there has been a forced statutory destruction of livestock, compensatory income can be deemed to be income in the following year. Under cash-basis accounting this deferral prevents a substantial increase in income tax liabilities. However, under the accrual system the income and expenses are automatically matched, so that this provision would become unnecessary. The estimated revenue cost of this provision is $5 million per year.

Forward Averaging

It is useful to describe briefly the current forward averaging system. This means of income averaging is generally available to all individual taxpayers. It

provides income averaging without tax deferral. It replaced IAACs (income averaging annuity contracts) and general averaging after 1981. It essentially allows recognition of "blips" in income to be postponed to a future year entirely at the discretion of the taxpayer. There is no tax deferral because income being forward averaged is liable for a special refundable 50 per cent tax. While this may sound onerous, the refundable tax payment on deposit with the government effectively earns an after-tax return equal to the CPI. This is because it, and the associated income being forward averaged, are indexed by the CPI increase each year. While paying 50 per cent to the government up front may not sound attractive, it leaves more cash in the taxpayer's pocket than paying 100 per cent to a trust company under the former IAAC provisions. The system is also more flexible. In the case of artists and athletes, all their income - not just blips - is eligible for forward averaging.

OPTIONS: Accounting and Income Averaging

The study team recommends to the Task Force that the government consider amending the Income Tax Act to require effective January 1, 1987 that all farming businesses report their income on an accrual basis, rather than on the cash basis currently permitted. (The delayed effective date would allow farmers time to adjust to the new accounting requirements. It also would allow for the new Canadian Institute of Chartered Accountants' study on accrual accounting principles in the agricultural sector due to be published this year.)

To provide a gradual phasing-in of the cost impact of this change, a reserve for all previously deferred income would be allowed to permit the income to be recognized over a period up to 10 years, at a rate of at least 10 per cent per year at the discretion of the farmer.

This reserve could apply only to inventories on hand at the end of fiscal years ending prior to 1985. This would mitigate tax avoidance measures being taken during 1985 and 1986. Alternatively, the reserve could simply be set equal to 90 per cent of closing inventories in 1987, 80 per cent in 1988, and so on.

A flat $10,000 deduction claimable against the transitional reserve could be granted to each farmer, claimable pro-rata with the reserve over the 10 years. In

effect, this would forgive about 25 per cent of the revenue gain, and result in almost no tax increases for small farmers.

As a further mitigating factor, enhanced access should be provided to farmers to forward averaging, by allowing any amount of farm income to be forward averaged without applying the usual 110 per cent income threshold.

A program of farm management and accounting assistance to farmers should be mounted by Agriculture Canada, in consultation with FCC and Provincial Extension Services, and using university farm management faculties (possibly involving their students during summer employment). The FCC and banks may wish also to mount complementary programs.

Given this change to accrual accounting, the Income Tax Act can be simplified as follows:

1. abolish five-year block averaging;

2. abolish flexible livestock inventory accounting;

3. abolish deferral of income on grain sales; and

4. abolish deferral of income on forced destruction of livestock.

CAPITAL GAINS

The House of Commons standing committee on Finance, Trade, and Economic Affairs is now reviewing and hearing presentations from interested parties on a discussion paper issued by the Minister of Finance entitled Tax Issues in Agriculture. This paper focuses on three tax issues: agri-bonds, Section 31 - farm loss limitation (hobby farms), and exemption from capital gains tax for farmers. Given the tenor of testimony on these items before the committee, the study team has chosen to focus mainly on the third issue. Two specific items have been addressed, the intergenerational rollover and the capital gains reserve. The hobby farm issue is touched upon briefly at the end.

Intergenerational Capital Gains Rollover

Ordinarily, one half of capital gains are brought into income when property is sold, or when property passes to another person on the death of the owner. There is one

general rollover provision which permits deferral when property passes to a surviving spouse, and another which permits up to $200,000 of gains on shares of small businesses to be deferred if they are passed to a child or grandchild. In the special case of farm property, there is a more extensive rollover - complete deferral of all capital gains recognition when the property passes from one generation to the next. Since farmers tend to be "asset-rich" but "cash poor", this special treatment of farm property for capital gains purposes is particularly valuable.

Extended Capital Gain Reserve

When a property is sold and only a part of the proceeds are received in cash, a special reserve provision can be utilized. This serves to reduce the sharp impact of tax on capital gains income by allowing the gain to be partially deferred and spread over 10 years. Ordinarily the limit on capital gains reserves is 5 years. However, where farm property has been transferred from parent to child, the requirement to recognize a capital gain over five years is increased to 10 years.

The taxation of capital gains income is highly controversial. The general pressure on the government is to reduce or eliminate this tax. There are several reasons why this tax can legitimately be viewed as unfair or onerous, particularly in the agricultural sector:

a. The capital gain is in part attributable to inflation; it does not represent any real increase in value.
b. The capital gain generally accrues over many years, yet becomes taxable in a single year.
c. The gain may result from a forced sale, usually in unfortunate circumstances such as the farmer dying, becoming sick or being on the verge of bankruptcy.
d. A new farmer whose parents are not farmers has to pay more to get into farming than a child of a farmer, for exactly the same farm property, due to the special rollover for intergenerational farm transfers.
e. When a farm is sold and the vendor takes back a mortgage, he may not have received enough cash to cover his capital gains tax.

One observation regarding point a) above is that half rather than full taxation of capital gains has more than offset the impact of inflation. The reason in the case of farm land is that since 1971, nominal land prices have increased more than twice as fast as the CPI. In addition, when a farmer borrows to buy his land, the whole of his nominal interest costs are fully tax deductible, including the portion attributable only to inflation.

More generally the existing rollover provisions, as partial relief from tax on capital gains, have had perverse impacts on the farming sector. Further widening these exclusions would worsen these perverse impacts. The reason, simply, is that tax benefits such as these tend to become capitalized. They drive up the price of farm land. This has a dual impact. First, it becomes harder for new entrants to become farmers; it saddles them (and over time the farming sector) with higher debt servicing costs when they enter farming. Second, the apparent rationale for exemptions from capital gains tax is strengthened since the prospective capital gains tax liability is larger. This is a vicious circle, and one that is not easily cut.

The current rollover provisions are sowing the seeds for greater problems in the future. The more time that passes, the greater will be the accrued capital gains and the public outcry when tax becomes payable - often in difficult circumstances of death, illness, or financial difficulty. The study team is certainly sensitive to these concerns. But it feels that a different approach is required. The decision must be taken to begin weaning the farming sector from capital gains exclusions and rollovers. This is not because tax on capital gains is necessarily a good thing; but rather because a failure to apply the tax sooner and in smaller bites will increase rigidities and obstacles to the efficient economic functioning of the agricultural sector.

As a general theme, the study team's objective is to encourage productive investment, not to reward passive speculation. The goal of the tax system should be to stimulate the efficient use of land, not simply the holding of land. It is on this basis that the Ontario Federation of Agriculture, the Canadian Cattlemen's Association, and Coopers and Lybrand have all testified before the House standing committee against widening the capital gains exclusion on farm land.

OPTIONS: Capital Gains

For these reasons, the study team recommends to the Task Force that the government consider a phased narrowing of the scope of the rollover provisions. Specifically, all capital gains on farms (or farm corporations) accrued after May 20, 1985 (i.e. budget day) could be subject to the same $200,000 rollover limit as all other small business transferred within the family. This would grandfather the full rollover on gains accrued up to May 20, 1985 even if the farm is transferred many years in the future. It phases in gradually, as subsequent capital gains accrue. It also places a cap on the overhang of accrued capital gains liabilities that build up over time.

Due to the relatively low land values at present, consideration could be given to allowing 110 per cent of the new valuation day values to be used as the cost basis for newly accruing gains that would be subject to the more stringent rollover limits.

Alternatively, if there is too much complexity associated with creating a new valuation day, all accrued gains back to 1971 could be subject to a higher $500,000 rollover limit.

To provide relief from the bunching of tax liabilities associated with a capital gain realization, there would be enhanced access to forward averaging proposed earlier in connection with the recommended shift to accrual accounting. As well, consideration could be given to a modest enrichment of the capital gains reserve provisions. For example the current 10 year limit could be extended to 12 or 15 years. However, to concentrate this tax relief on those most in need, it could be confined to the first $500,000 of gains ($250,000 of taxable gain). Also, to lower the obstacles to new farmers, the enhanced access to the reserve provision should not be confined only to cases of intergenerational farm transfers.

It should be noted that with all the study team's recommendations in place, the taxation of a farmer's capital gains would still be quite favourable. For example even without any rollovers, a farm purchased for $200,000 and sold for $500,000 cash would result in a capital gain of $300,000. Half of this $150,000 is taxable but under a recently introduced provision up to $120,000 can be rolled

over into a RRSP, leaving $30,000 of taxable income, and thus a maximum of $15,000 tax payable. The farmer would still have $365,000 cash in hand and $120,000 in his RRSP. In earlier years, the interest costs on money borrowed to buy the land was fully deductible; and the example takes no account of benefits available through the capital gains reserve and forward averaging.

The study team clearly recognizes that these capital gains proposals will be generally unpopular (though some farm groups would be supportive). However, the study team feels that the proposals have a strong analytical and public policy foundation:

- they will slow the growth in land prices and help keep the cost structure in the agriculture sector from increasing as rapidly;
- they lower obstacles to an efficient and dynamic system of farm enterprises; and
- they are in accord with concerns about the federal deficit.

Further analysis would be required to assess the revenue impact of these proposals. In the first several years it would be negligible. Even in ten years it might still be relatively small if high real interest rates and other factors prevent the value of land from rising. As a result, this is an ideal time (admittedly for unfortunate reasons) to introduce these measures.

OTHER DEDUCTIONS AND DEFERRALS

In addition to the two broad groups of tax expenditures directed to the farm sector already discussed, the study team has considered several other provisions:

a. quota depreciation,
b. clearing and improving land,
c. pre-productive stage expenses.

Quota Depreciation

Under many farm product marketing plans, farmers must purchase a producer quota which permits them to sell a specified quantity and quality of produce. To the extent that these quotas are transferrable between farmers, a market for them has been established. Prior to 1972, the sale or purchase of these quotas had no tax effect since

they fell into the broad classification of "nothings" (they were non-depreciable capital expenditures). After 1972, the purchase of a quota was classified as an "eligible capital expenditure". Thus one-half of the purchase price can be amortized at a rate of 10 per cent on a diminishing balance basis. These amounts that are deducted will eventually be recaptured when the farmer sells the quota.

Quota values fluctuate extensively, rising and falling depending upon the season as well as other factors. Generally, however, quotas appreciate in value much the same way as do values in real estate, precious metals, or art. It is unreasonable to allow any depreciation claims on assets that tend to appreciate in value. Indeed it can have perverse impacts because the value of the tax concession will tend to be capitalized in even higher quota prices. The revenue cost of this provision is about $5 million per year.

Clearing and Improving Land

Amounts paid for clearing land, levelling land, or laying tile drainage for the purposes of carrying on a farming business are deductible as a current expense. However, these are capital expenditures, indeed in most cases non-depreciable capital expenditures. A specific provision which allows these capital outlays to be expensed was added to the Act in 1965. Prior to that year tile drainage, for example, could only be depreciated at a rate of 4 per cent a year. As a matter of administrative practice, Revenue Canada allows some other capital expenditures to be expensed, for example the cost of drilling or digging water wells. The effect of allowing these expenditures to be deducted as current expenses instead of depreciated, even at a rate of 100 per cent, is that while they add to the value of the land, when the land is sold that value is not recaptured as ordinary income but is generally taxed at half rates as a capital gain.

In addition to these tax benefits, there are overlapping federal and provincial direct spending programs which, in some provinces, provide subsidies to farmers for land clearing and tile drainage.

These tax provisions are equivalent to a fast write off for expenditures that under generally accepted accounting principles would either be depreciated if they can wear out (e.g. drainage tiles), or capitalized if they last forever

(e.g. land clearing). The current treatment thus results in tax being deferred until the farm is sold outside the family. Then the value is not recaptured as ordinary income, but as capital gains, so that only half the amounts deducted are potentially brought back into income for tax purposes.

The estimated revenue cost of this provision is in the $10 to 20 illion per year range. There are no data on its impact or efficacy. There is no particular justification to giving broad incentives for these kinds of investments over any others in the farm sector.

Pre-Productive-Stage Expenses

These expenses are incurred with planting perennial bushes or trees that produce an annual crop. They are allowed to be deducted for tax purposes as a current expense. This treatment differs from ordinary accrual accounting where comparable kinds of expenditures would be capitalized and amortized or written off at some future time. It is this concession that makes tree farming such a popular tax shelter. Virtually all the costs incurred prior to production may be deducted and may create losses which can be offset against income from other endeavours subject, of course, to the restricted farm loss rules contained in Section 31 of the Income Tax Act. When the commercial bearing stage is reached, a taxpayer may sell out, and his gain will ordinarily be taxed as capital gain. Thus, not only may a tax deterral be obtained, but the deductions are offset against income taxed at full rates, while only one-half of the gain is taxed.

The estimated revenue cost of this provision is about $5 million per year. There are no data on its impact or efficacy. There is no clear rationale for this incentive.

OPTIONS (OTHER)

These three tax expenditures do not appear to provide good value for taxpayers' money. The study team recommends to the Task Force that the government consider terminating them unless a careful evaluation can show otherwise. Specifically, the Minister of Finance should review these measures and if no justification can be found,

a. quotas should no longer be treated as eligible capital property and gains on the sale of quotas

should be treated as ordinary income, not as capital gains and taxed at half rates;

b. expenditures on land improvements by farmers should not be given special treatment; they should be capitalized or depreciated as in the case of similar expenditures by other taxpayers; and

c. expenditures on perennial bushes or trees should be depreciated for tax purposes in line with the plants' useful crop-bearing lives.

PART-TIME FARMING

The part-time or hobby farming issue has not been addressed so far. The reason, simply, is that half to three-quarters of the tax advantage of tax shelter farming would disappear if all the above options were implemented. As a result, we can put forward the following proposal:

OPTIONS

Provided the above options on accounting, capital gains and other features were implemented, the restricted farm loss rules in Section 31 could be eliminated for farms that had adopted accrual accounting. On the other hand, for farms that continued to use cash-basis accounting, the loss restrictions should be strengthed such that no other income could be sheltered from tax by cash-basis farm losses. To prevent year-to-year manipulation, once a farm had elected to use accrual accounting, it could not switch back to cash-basis accounting.

MARKETING BOARDS PROGRAMS
MARKETING BOARDS

There are many commodity marketing arrangements in Canada, often collectively referred to as agricultural marketing boards. All but five operate at the provincial level.

The Canadian Wheat Board (1935) is a federal export marketing institution under the trade and commerce power. The CWB also was delegated provincial constitutional powers for its domestic operations. Its role is orderly marketing for commodities heavily dependent on export markets, and not supply management. Western producers pay all CWB operating costs.

The other four national marketing agencies flow from the Farm Products Agencies Act (1972) (chicken, eggs, turkey) and the Canadian Dairy Commission Act (1966). These agencies are fully integrated federal-provincial institutions, with the character of a confederation of ten provincial agencies. The federal trade and commerce power (import control and free flow of inter-provincial trade) is pooled with the provincial powers (production controls and intra-province trade). These four agencies differ further from the CWB:

1. they operate supply management schemes and their plans center on how to share the Canadian market;
2. three agencies (chicken, eggs, turkey) are supervised by the National Farm Products Marketing Council in the public interest, and receive no federal treasury payments once established;
3. The national dairy plan does not have independent supervision in the public interest, receives substantial treasury payments, and has operational support from a dedicated federal agency, the CDC.

All three Acts enabling marketing agencies were created as federal response to great instability of markets. The strategy of solving instability by supply management aimed at a closed Canadian market brings long term costs in terms of rigid production patterns and administratively set prices. The significant value of provincial production quotas merely reflects the capitalization of expectations of future gains. However, it has a very negative implication

for productivity. It has rewarded those producing at the time the Plans were established, but it saddles the new entrant with high debt payments. Even the federal tax structure reinforces this impact by permitting depreciation of quota value. Beyond this, the dairy plan further demands federal treasury support for massive subsidies, enmeshes the federal Cabinet regularly in ad hoc subsidy demands, and does not have independent supervision in the public interest.

OPTIONS

This report sets out the need to upgrade the powers of the National Farm Products Marketing Council to supervise effectively the agencies under its Act (chicken, eggs, turkey). It suggests to the Task Force that the government consider that the national dairy plan be moved to the supervision of the Council under that Act, and that the massive subsidies be stopped now. An adjustment plan should be designed and negotiated to facilitate change. No new national supply management schemes should be permitted. Finally, with regard to the Canadian Wheat Board, the Government should address the need to establish effective accountability.

NATIONAL FARM PRODUCTS MARKETING COUNCIL

OBJECTIVES

To maintain and promote a strong, efficient and competitive production and marketing structure for regulated products, while balancing the interest of producers and consumers.

AUTHORITY

Farm Products Marketing Agencies Act 1972.

RESOURCES ($ millions)

	83/84	84/85	85/86
Operating Costs	1.5	1.6	1.6
PY's	25	27	28

DESCRIPTION

National Farm Products Marketing Council (NFPMC) conducts hearings when a commodity group seeks to create a national marketing plan. The results are conveyed to the Minister for decision. The Minister of Agriculture also takes account of the views of his provincial colleagues in his decision.

A new agency is eligible for a $100,000 grant from the federal government. From that point, no further federal financial assistance is provided. The new agency must obtain its funding from levies on its producers.

NFPMC reviews and approves levy and quota orders of agencies. This enables the Council to monitor and approve the annual budget of each agency.

NFPMC reviews the operation of the Agencies to ensure that they are acting in accordance with the objectives as defined by the Farm Products Marketing Agencies Act.

NFPMC has the authority to conduct enquiries and take action in relation to complaints received from people affected by an agency.

The Council currently consists of seven Order-in-Council appointees with the Chair and two other members being full time. The Act specifies that at least 50 per cent will be producers. Currently, the Chair and two part-time members are non-producers.

BENEFICIARIES

The beneficiaries of the Council are the producers and the consumers of regulated products (eggs, turkey, chicken) who are assured of arms-length supervision of each agency. A well supervised system also reflects well on the Government and relieves the Minister from detailed mediation and direction of the agencies.

OBSERVATIONS

The NFPMC reports to the Minister on matters pertaining to the monitoring and supervision of the agencies. The NFPMC as a supervisory body is in a control and sometimes adversarial position with the agencies.

Agencies need prior approval by NFPMC for any levy and quota orders. However, the limits to the powers of NFPMC are not clear in dealing with the submissions from agencies. The Act gives the Council powers to "review" marketing plans and operations of agencies, and to report and recommend to the Minister.

Recommendations for changes in proposed orders and regulations may be transmitted to the agency by the NFPMC. If the recommendations are ignored or no solution is negotiated, the remedies available to NFPMC are not effective. The two actions that NFPMC can invoke are a) small fines or b) dissolution of the agency. Neither is an effective tool.

The three national marketing agencies currently established are for chickens, eggs and turkeys. Canadian Dairy Commission, the other national agency, does not come under the supervision of the Council. Hearings to establish agencies have been completed on hatching eggs and are active on tobacco. Plans for these two commodities may well materialize during 1985-86.

ASSESSMENT

The agencies are mandated to operate for the mutual benefit of the producers, and the consumer. However, the agencies have moved very strongly toward the benefit and protection of their producer groups. Existing supply management schemes have resulted in higher prices, controlled imports and lower domestic output than would otherwise be the case.

Supply management is a means of achieving stability for producers. Although the prime alternative means of stability (tripartite stabilization plans) costs the federal treasury, they are much preferable in terms of leaving the market signals to guide investment and set competitive prices.

This is a most complex area for federal regulation because the plans involve pooling the powers of the federal (inter-provincial and international trade) and the provincial governments (production and intra- province movement).

NFPMC attempts to utilize fully the authority in the existing Act to enforce its recommendations. The agencies sometimes dispute such interpretation of the Act to avoid accepting the recommendations of NFPMC. The most recent challenge may proceed to a formal court action by CEMA, and this could be helpful in clarifying the Council's powers.

NFPMC powers are not sufficient and clear to properly supervise and control the direction of Agency activities. The sanctions available to the NFPMC are not practical for the role it is to play. Small fines are ineffective and dissolving an Agency is not a practical solution.

The Minister may be requested to arbitrate between an agency and the Council. This fosters confrontation between the agencies and the supervisory organization, and pulls the Minister personally into a detailed supervision role which he does not have the time to do effectively.

In the view of the study team, it is necessary to assign to the Council the full authority to approve agency plans, subject to Cabinet override. This would strengthen the effective supervision of the agencies in the public interest, while providing avenue for redress via Cabinet,

and also limiting the scope of the agencies to pull the Minister into an ongoing personal mediation role.

A major critique of national supply management plans is that they paralyse the dynamics of interprovincial production and investment based on comparative advantage. The reference in the Act to consider this factor for quotas between provinces, and only on production greater than the original quota levels, is so weak as to be ineffective. Further high values for production quotas are a common side-effect of national supply management plans, and this works to create a high cost structure for the industry as new producers pay for the quota.

In revising the legislation to clarify and improve the powers of the Council, the principle of comparative advantage should be reaffirmed as a mandatory requirement so that market signals can govern investment in these industry sectors.

The power to regulate production is a provincial power. Hence, the provinces will need to agree or acquiesce in any system which would result in production moving from one province to another based on comparative advantage.

OPTIONS

The study team recommends to the Task Force that the government consider elevating the National Farm Products Marketing Council to a regulatory commission with final authority (subject to Cabinet over-ride) to approve agency marketing plans and regulations, and providing the Council with a wider array of sanctions to ensure compliance. This would involve amending the Act to clarify the Council's powers and to make mandatory that quota allocation between provinces be revised regularly and based on comparative advantage.

No further national supply management schemes should be established.

DAIRY SUPPORT PROGRAM

OBJECTIVES

To provide efficient producers of industrial milk and cream with the opportunity of obtaining a fair return.

To provide consumers with a continous and adequate supply of high quality dairy products.

AUTHORITIES Legislative

The Canadian Dairy Commission (CDC) is the federal government's agent in administering the federal dairy program. It is a crown corporation established by the Canadian Dairy Commission (CDC) Act (1966).

Under the Agricultural Stabilization Act (ASA), industrial milk is a commodity named for stabilization subsidies.

Imports of dairy products into Canada are controlled under the Export and Import Permits Act and CDC Act.

AUTHORITIES Non-Legislative

National production and marketing plans for industrial milk are developed by the Canadian Milk Supply Management Committee (CMSMC). This body was established in 1970 to implement a joint federal-provincial system of domestic supply management for industrial milk. The CMSMC operates under the chairmanship of the CDC and includes representatives from provincial governments and milk marketing boards.

DESCRIPTION

Milk production involves fluid milk which is consumed fresh and industrial milk which is processed into cheese, butter, skim milk powder and other non-fluid dairy products. Fluid milk is regulated provincially. Industrial milk is regulated federally.

The industrial milk industry operates under a system of supply management. Supply management permits the imposition of import controls on competing products from offshore and keeps domestic prices higher and output lower than would be the case in its absence.

Industrial milk supply management is achieved by federal-provincial agreement. Provincial agencies administer producer quota (production) allocations. The federal government implements complementary import protection and, through the CDC, administers a domestic price support scheme.

In addition to the domestic market control afforded producers by supply management, subsidies are paid directly to producers by the CDC from public funds (Agriculture Stabilization Act). Since 1975, the federal subsidy has been fixed at $6.03 for each hectolitre of industrial milk produced for domestic consumption. The subsidy available to individual producers is limited to $30,150. Since 1979, subsidy has also been paid on a limited amount of production specifically for export.

National industrial milk production is set in a manner which leads to substantial surpluses of skim milk powder, a by-product of butter production. Under supply management domestic prices for both butter and skim milk powder are kept well above international prices. Dairy product surpluses are sold on depressed world markets at low international prices.

Federal dairy policy assigns to producers financial responsibility for selling surplus dairy products offshore. However, the government pays storage and related inventory costs ("marketing" costs) for certain products including all skim milk powder surplus to Canadian needs.

EXPENDITURES

In addition to the expenditures identified below, the government provides the CDC with a loan up to $300 million for buying and selling products to support domestic prices.

	82/83	83/84	84/85	85/86	86/87
	($ million, fiscal years)				
Canadian Dairy Commission					
Operating Expenses	5.6	5.5	6.5	4.4	4.6
Person-years (number)	72	72	77	78	78

Transfers Under the Agricultural Stabilization Act(ASA)					
Subsidies for production consumed domestically:*	266.0	294.8	282.0	276.1	274.9
Subsidies for production for export:*	13.3	15.2	13.3	8.0	6.7
Marketing costs (storage, interest and handling):*	15.7	37.5	22.0	13.0	13.0
Sub-total (ASA)**	295.0	347.5	317.3	297.1	294.6
TOTAL	300.6	353.0	323.8	301.5	299.2

* Estimates, confirmed by the CDC.
** Actual (projected) ASA fiscal-year transfers to CDC; source Treasury Board Secretariat.

Marketing costs vary considerably from year to year depending on CDC inventory levels and interest rates. Past Government attempts to limit marketing costs have been defeated by frequent CDC requests for additional, ad hoc, federal funding. Even with this ad hoc funding, federal transfers for marketing costs in recent fiscal years appear to be below actual CDC expenditures.

OBSERVATIONS

Industrial milk was the first commodity placed under a national supply management scheme. Subsequently, national supply management was instituted for chickens, eggs and turkeys under the federal Farm Products Marketing Agencies Act. Aside from a small grant for start-up costs, producer agencies operating supply management schemes under the FPMA Act receive no federal funding. Except in the case of dairy, there are no subsidies for national supply management schemes; program operations are financed entirely by producers.

For consumers, the federal subsidy partially offsets the higher prices associated with supply management. However, inflation has eroded the value of the fixed subsidy. Consumers paid 75 per cent of producers' total returns in 1975. Because of price increases and the relative decline in importance of the federal subsidy over time, consumers now pay more than 86 per cent of producers' returns.

Province	Number of Producers* (#)	Share of National Production Quota* (%)	Subsidy for Production Consumed Domestically* ($ million)
P.E.I.	919	1.9	5.4
N.S.	851	1.3	3.6
N.B.	789	1.3	3.8
Que.	19,234	48.0	136.3
Ont.	13,612	31.2	90.4
Man.	3,384	3.9	11.0
Sask.	3,095	2.6	7.4
Alta.	3,905	6.7	19.0
B.C.	1,123	3.1	-
CANADA	46,912	100%	$276.9

* Dairy year, 1983/84.

ASSESSMENT

It is the view of the study team the key dairy program objectives of fair returns to producers and adequate supplies to consumers could be achieved at lower cost and with less government intervention than is currently the case. Fair returns to producers are guaranteed so long as they are permitted supply management and controlled pricing. Consumer supply is adequate.

Subsidizing dairy production in the absence of supply management and import controls might make sense as an income stabilization measure. However, given supply management, paying subsidies only lowers prices to consumers and slightly increases consumption. If, over a one year period, federal subsidies were eliminated, wholesale dairy product prices would increase by about 14 per cent. For example, butter prices would increase by $0.70 per kilogram

($0.32 per pound). This price increase would lead to an estimated six per cent drop in consumption of non-fluid dairy products from current levels.

Producers should be open to market signals which encourage exports only when they are profitable. The export subsidy encourages production for which there is no profitable market, and results in real losses to producers, government and the economy. Under the existing program, adherence to the principle of producer responsibility for export costs would permit elimination of federal export subsidies and related marketing expenditures.

Dairy processors' basic margins (revenues) are regulated by the CDC. No distinction is made at the processing level between milk processed for domestic and export markets. In contrast to producers, processors do not incur export losses. There is, therefore, an incentive for processors to encourage increased milk production. About 85 per cent of the processing industry in Quebec is owned by producer cooperatives. Nationally, about 50 per cent of the processing industry is producer-owned.

The government is approached continually to provide extra, ad hoc, funds to the Dairy Program. Frequent and ready access to the federal treasury has encouraged producers to take improper production decisions and reinforced producers' perception that the federal government stands ready to provide extraordinary financial assistance on demand.

The Canadian Dairy Commission has been cited for internal mismanagement and lack of accountability to consumers and government. Both the Gibson Inquiry (1980) and the Auditor General's report (1982) raised serious questions about government control over the CDC. The CDC operates on a "dairy" year (August to July) but receives federal funding on a government fiscal year basis. CDC financial accountability could be significantly improved if Auditor General audits were conducted on a fiscal as well as dairy year basis. Other national supply management schemes are supervised in the public interest by the National Farm Products Marketing Council. Industrial milk supply management is not subject to equivalent supervision.

Desirable program changes would:

a. increase industry self-reliance and improve market signals between producers and consumers;
b. lower taxpayer costs;
c. lessen producers' and taxpayers' losses from the disposal of surplus products offshore; and,
d. improve industry efficiency. (See Annex A).

OPTIONS

The study team recommends to the Task Force that the government consider the following options:

- Enact dairy supply management under the Farm Products Marketing Agencies (FPMA) Act:

  - industrial milk producers would assume full responsibility for program management and financing;

  - the government would eliminate all federal program expenditures for subsidies, marketing costs and the operation of the Canadian Dairy Commission;

  - dairy supply management would be under the supervisory control of the National Farm Products Marketing Council;

  - savings would be approximately $300 million annually. Implementation would require amendments to the FPMA Act. The CDC Act could be repealed.

- A variation of the above option which would preserve a minimal level of federal program involvement and financial responsibility would entail:

  - retention of the Canadian Dairy Commission to regulate domestic support prices and to operate, with the Canadian Milk Supply Management Committee, producer supply management;

  - elimination of federal expenditures for marketing costs, domestic and export subsidies;

- creation of a regulatory supervisory body composed of producer, processor, consumer and federal government representatives with power to direct the operations of the Canadian Dairy Commission in the public interest.

Savings would be approximately $300 million annually (the government would continue to fund the administration of remaining CDC functions). Amendments to the CDC Act would be required to create a supervisory body with statutory power to oversee and direct CDC operations.

STRATEGIC OPTIONS REGARDING INDUSTRIAL MILK PRODUCTION

(Typical non-integrated industrial producer; about 27 milking cows in the herd; in the middle one-third of production efficiency; physical assets of approximately $200,000 as well as quota valued at about $100,000, for total assets of $300,000).

Under Strategies I and II, the 13 per cent and 18 per cent respective decreases in global quotas for industrial milk and cream is expected to result in proportional quota reductions to all producers.

	Status Quo	**Strategy I**	**Strategy II**
Quota in Hectolitres	1,200	1,041	973
Producer Revenues constant $44.65 per Hl.			
a) sales @ $38.62	46,344		
subsidy @ $6.03	7,236		
b) sales @ $44.65		46,481	43,444
Levy paid to Canadian Dairy Commission to cover export losses ($6.26, $3.19, $.86)	(7,512)	($3,321)	($837)
Cash costs @ $22.60 per Hl.	($27,120)	($23,527)	($21,990)
Gross Margin	**$18,948**	**$19,633**	**$20,617**

i.e. return for labour and return on investment

OBSERVATIONS

1. Production is lower under either Strategy;
2. Revenue per Hectolitre is kept constant, coming solely from sales under either Strategy;
3. Industry mismanagement has led to severe export losses; Levies under Status Quo exceed Federal Subsidy payments;
4. The Status Quo levy reference of $6.26 per Hl. combines the $5.75 per Hl. levy set in August 1984, plus $.51 per Hl. as per the recent decision of the Canadian Milk Supply Management Committee to cover ever mounting losses.
5. Export losses under either Strategy are substantially curtailed, hence requiring substantially lower levies;
6. Cash costs per Hectolitre are constant, so total of cash costs goes down as less milk is produced;
7. Under either Strategy, Gross Margin i.e. return for labour and return on investment, is improved for this typical Québec producer, and in fact for every producer in Canada;
8. Under study team recommendation, it would be up to the dairy industry, subject to supervision by NFPMC, to make its own decisions as to what Strategy it wanted to follow in its best interests.

CANADIAN WHEAT BOARD

OBJECTIVE

To market grain (wheat, barley, oats from the designated area) in the best interests of Prairie producers.

AUTHORITY

Canadian Wheat Board Act 1935.

DESCRIPTION

There are 5 members on the Board including the Chief Commissioner. The Canadian Wheat Board employs 600 full and part-time people. The Head office is in Winnipeg. Branch offices are located in Vancouver, Montreal, Tokyo, and London (U.K.).

The CWB reports to Parliament via the Minister of State (Canadian Wheat Board).

The CWB buys and sells all wheat, oats and barley from the designated area for export and domestic human consumption. Private companies may act as agents for the CWB in the above. The CWB buys and sells 80-85 per cent of Western feed grain.

The Cabinet approves the initial payments to the producers taking into account the advice of the CWB and the recommendation from the Minister of State (Canadian Wheat Board). Grain prices for the new crop year are established in March to give some market signal to influence planting decisions. These prices are paid by the Board to producers during the crop year beginning August 1. Pool prices are determined subsequent to crop year end (July 31) and are the average price from CWB sales. If Pool prices are above the respective initial prices, then the producer receives a final payment roughly seven months after crop year end; if below the initial price, no final payment is made and the government of Canada covers the deficit.

The activities of the CWB include:

a. seeking and obtaining world markets;

b. setting delivery quotas to producers to control flow of grain to market;

c. paying elevators/Pools to act as agent for purchasing and delivering grains to terminals for CWB storage and shipping;

d. allocating most of the hopper cars for CWB controlled grain;

e. issuing import/export licences for all wheat, barley and oats for all of Canada.

f. administering at producer expense the Prairie Grain Advance Payments Act.

Normal CWB operating costs including wages are paid out of current proceeds. No federal government funding is provided for CWB administrative overhead cost.

BENEFICIARIES

Western Grain Producers.

OBSERVATIONS

The CWB finances its operation by loans from the 5 main banks under a guarantee from the federal government. The balances at times during the year often approach $1 billion. The CWB borrows at prime rate minus 1/4 per cent.

There is presently outstanding $2.7 billion in government guaranteed export credit.

Total grain sales per year may reach about $5 billion.

The CWB negotiates deals on a state to state basis. This fact, plus the highly competitive nature of this trade, results in a very secretive atmosphere. The member producers are not aware of sales activities and prices.

The CWB has been very successful in its sales effort over the past few years, even with soft markets. However, it, as well as other sources, are worried about the future

due to heavy international competition, and fluctuating currency values.

The Grain Transportation Agency allocates railway cars between board and non-board grains. The GTA was established to provide leadership in allocating hopper cars to all interested parties; however the CWB still has the largest share.

ASSESSMENT

The Board has 5 commissioners. Although there is a Chief Commissioner, all have equal executive powers. Consequently there is no one person in charge or accountable.

Future plans for markets or new product development are not clear, although again, the study team found the CWB to be unwilling to divulge such information.

Although supply management is not practiced, the total control over importing and exporting of all board and off-board wheat, oats and barley, gives a strong monopoly.

Through its control of delivery quotas, and therefore elevator space, the CWB exerts strong control over other grain.

Extensive accounts from credit sales are in arrears. Interest costs continue to accumulate, and the Federal Treasury is liable for any default.

OPTIONS

The study team recommends to the Task Force that the government consider the following:

a. Internal accountability should be defined and established.

b. The CWB should be assessed a risk premium for all credit grain sales undertaken with government guarantees. A premium charge would heighten producer awareness of the risks currently being assumed by the government and would establish a cost against which the merits of using credit could be assessed.

RECORD OF CONSULTATION

GOVERNMENT ORGANIZATIONS

AGRICULTURE CANADA

J.P. Connell, Deputy Minister

Dr. G.A. Hiscocks, Assistant to the Deputy Minister

Dr. D.J.E. Demers, Departmental Secretary

Dr. G.I. Trant, Senior ADM, Policy

R.C. Bailey, ADM, Regional Development

Yvan Jacques, ADM, Marketing and Economics

Dr. E.J. LeRoux, ADM, Research Branch

Dr. J.E. McGowan, ADM, Food Production and Inspection

W. Miner, Coordinator, Grains Group

Alan Ross, ADM, Finance and Administration

Dr. J.R. Aitken, Program Coordinator, Contracts, Research Branch

Dr. W.B. Baier, Director General, Program Coordination, Research Branch

Dr. C.J. Bishop, Program Coordinator, Production, Research Branch

Dr. R. Bouchard, Program Coordinator, Animals, Research Branch

B. Brockman

Dr. J.J. Clark, Director, Land Resources Research Institute

Dr. W.P. Cochrane, A/Director General, Plant and Plant Products

R.H. Davidson, Associate Director, Market Improvement

Dr. J. De Graaf, Program Coordinator, Marketing and Economics

Dr. A.I. de la Roche, Director, Chemistry and Biology Research Institute

Dr. G.J. Dobson, Director, International Trade Policy

M.E. Doyle, Director General, Management Services (FPI)

Dr. R. Eyvindson, Director, Production Development Policy

L. Giroux, Branch Financial Officer (FPI)

Dr. J.L. Girt, Director, Program Coordination, Regional Development

A. Gratias, Director General, Audit and Evaluation

Dr. R. Halstead, Director General, Institutes, Research Branch

D. Harkin, Director, Regulatory Affairs (FPI)

D. Hendrick, Resource Management Services (FPI)

C.E. Hill, Director, Marketing Services

Dr. H.W. Hill, Director General, Prairie Farm Rehabilitation Administration

Miss Lois M. Hurst, Director, Food Division, Marketing and Economics

D.F. Kirkland, Program Coordinator, International, Research Branch

Gilles Lavoie, Director General, Farm Income Services

Dr. C. L'Ecuyer, Director General, Health of Animals

M. MacGregor, A/Director, Animal Production, Regional Development

B. McBride, Head, Research Policy

J.J. McCrea, Director General, Finance

B.A. McKinnon, Director General, Systems and Consulting

B. Mitchell, Director, Financial and Operational Planning

W. Morris, Director, Plant Health

Dr. J.B. Morrissey, Director General, Food Inspection

G.A. Mulligan, Director, Biosystematics Research Institute

Mrs. M. Nicholson, Legal Services

S.W. Ormrod, Director, Pesticides

Dr. G.M. Patterson, A/Director, Program Evaluation

T.M. Pender, Director, Crop Insurance Division

Dr. B.B. Perkins, Director General, Development Policy Directorate, Regional Development

A.E. Proulx, Secretary Manager, Agricultural Stabilization Board

R.G. Ray, Regional Development

Dr. V. Ivan Reed, Director, Animal Health

B. Riddell

K. Riley, A/Director, Financial and Operational Planning

R. Roy, Director General, Agricultural Inspection

Dr. W.J. Saidak, Program Coordinator, Crops, Research Branch

R.B. Stewart

Dr. N.W. Tape, Director, Food Research Institute

Mrs. J. Taylor, Associate Director, Evaluation, (Pesticides)

K. Trudel, Chief, Operational Programs and Special Studies

Richard Tudor-Price

P.W. Voisey, Director, Engineering and Statistical Research Institute

Dr. D.F. Wood, Program Coordinator, Food, Research Branch

Dr. J. Vandenberg

CONSUMER AND CORPORATE AFFAIRS

Kathleen Francoeur Hendriks, ADM, Bureau of Consumer Affairs

Carol LaBelle, Chief, Program Coordination Division

Harry McElroy, Director General, Finance and Administration

Ralph McKay, Director, Consumer Products

C.G. Sheppard, Chief, Manufactured Food Division

Maureen Wadsworth, Director, Consumer Services

Dr. Alan Winberg, Assistant Director, Program Evaluation

CANADIAN DAIRY COMMISSION

G. Choquette, Chairman

C.C. Birchard, Senior Policy Advisor

E. Kramer, Chief Economist

Paul Simard, Director of Finance

CANADIAN GRAIN COMMISSION

H.D. Pound, Chief Commissioner

Beth Candlish, Commissioner

George Leith, Commissioner

John O'Connor, Executive Director

Ray Killman, Director, Finance

CANADIAN WHEAT BOARD

Dr. R.L. Kristjanson, Assistant Chief Commissioner

W.H. Smith, Commissioner

Harold Bjarnasson

ENVIRONMENT CANADA

Dr. W.B. Mountain, ADM, Environmental Conservation Service

Dr. R.W. Slater, ADM, Environmental Protection Service

Dr. J.A. Buccini, A/Director, Commercial Chemicals Division

E. Dowdeswell, Executive Director, Inquiry on Federal Water Policy

James A. Jackson, Director, Internal Audit Branch

Dr. A.C. Lachance, Director, Research Coordination and Program Evaluation Branch

D.H. Lennox, Director, National Hydrology Research Institute

James MacLaren, Commission of Inquiry on Federal Water Policy

J.W. Maxwell, A/Director, Lands Directorate

Dr. Maurice Millson, Chief, Pesticides Division

R.L. Pentland, Director, Water Planning and Management Branch

E. Wylie, Manager, Program Evaluation Branch

W. Zuk, Executive Secretary, Interdepartmental Committee on Toxic Chemicals

EXTERNAL AFFAIRS

Robert Richardson, Deputy Minister for International Trade and Coordinator, International Economic Relations

Marie-Andrée Beauchemin, Director General, Corporate Management Bureau

A.B. Browne, Director General, Agriculture, Fish and Food Products Bureau

N.A. O'Connell, Director General, Grain Marketing Bureau

Harold Hedley, Grain Marketing Bureau

L. Sarrazin, Corporate Management Bureau

FINANCE/TREASURY BOARD/COMPTROLLER GENERAL

I.E. Bennett, Assistant Secretary, Crown Corporations Directorate

Gerry Birks, Economic Development Division (Finance)

F.A. Claydon, Director, Industry, Transportation and National Resources (TBS)

G.G. Duclos, Deputy Comptroller General, Office of the Comptroller General

V. Eveleigh, Financial Internediaries, Crown Corporations Directorate

L. Fowler, Tax Analysis (Finance)

Claude Leblanc, Agriculture and Fisheries, Crown Corporations Division (TBS)

S.N. Poddar, Director Tax Analysis (Finance)

A. McNevin, Tax Analysis Section (Finance)

L. McCabe, Policy Advisor (TBS)

T. Richardson, Group Chief, Energy and Agriculture (TBS)

G. Traversy, Director, Economic Development (Finance)

M. Rochon, Chief, Agriculture, Economic Development (Finance)

HEALTH AND WELFARE CANADA

Dr. A.J. Liston, ADM, Health Protection Branch

Dr. D.E.L. Maasland, ADM, Income Security Programs

J.R. Elliott, Director General, Field Operations Directorate

Dr. C.A. Franklin, Chief, Environmental and Occupational Toxicology

Dr. S.W. Gunner, A/Director General, Food Directorate

J.M. Hopkins, Director, Management Processes

Madhu Joshi, Head, Data Collection Methods, Program Evaluation

Donald Ogston, Director, Program Evaluation

Dr. Jadu G. Saha, Director General, Informatics Directorate

Dr. E. Summers, Director General, Environmental Health Directorate

REGIONAL INDUSTRIAL EXPANSION

Jean Edmonds, Associate Deputy Minister

J. Hayes

Gordon C. Slade, FEDC, Newfoundland

H. Douglas Johnston, FEDC, Prince Edward Island

T.J. Wilkins, FEDC, Nova Scotia

John McNaught, FEDC, New Brunswick

Normand Plante, FEDC, Québec

Lawrence J. O'Toole, FEDC, Ontario

Robert Morin, FEDC, Manitoba

Arthur Wakabayashi, FEDC, Saskatchewan

Frank Bogdasavitch, A/FEDC, Alberta

David Bond, FEDC, British Columbia

T.J. Gibson, Senior Analyst, FEDC, Manitoba

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G.L. Curtain, Director, Agency Review

A.M. Halliwell, Economic Advisor, Legal Counsel

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M.E. Farquhar, Director General, Railway and Grain

J. Churcher, Director, Grain Transport and Handling

OTHER INDIVIDUALS AND ORGANIZATIONS

Dr. Arthur Collin, Secretary and Chief Science Advisor, Ministry of State for Science and Technology

Kenneth M. Dye, Auditor General of Canada

J.E. Hall, Director, Economic Programs, Department of Fisheries and Oceans

G.V. Kelly, Director, Industrial Programs, Manitoba Region

G. Lussier, Deputy Minister/Chairman, Employment and Immigration Canada

H.M.B. Millward, Principal, Office of the Auditor General

J. Mitchell, Machinery of Government, Privy Council Office

D. Mutch, Canadian Livestock Feed Board

P.J. Nepkin, Director, Planning and Evaluation, Canadian Transport Commission

Dr. Stuart L. Smith, Chairman, Science Council of Canada

NON-GOVERNMENT ORGANIZATIONS

BANKING INSTITUTIONS/ ASSOCIATIONS

E. Baskiar, Toronto-Dominion Bank and Chairman Agriculture Committee, Canadian Bankers Association

D. McRorie, Royal Bank, Canadian Bankers Association

A. Droppo, Canadian Bankers Association

B. Fulton, Canadian Imperial Bank of Commerce (CIBC)

G. Hamilton, CIBC, Agriculture Manager, Saskatchewan

B. Kelly, CIBC, Manitoba

J. Magiss, CIBC, Agriculture Manger, Ontario

J. Langlais, Comptroller, Federal Business Development Bank (FBDB)

F. Watters, Vice-President, Credit, (FBDB)

E. Anderson, President, Farm Credit Corporation (FCC)

T. Kreminiuk, Director, Corporate Planning (FCC)

P. Russell, Comptroller's Department (FCC)

CONSUMERS ASSOCIATIONS OF CANADA

Mrs. R. Titheridge, President, Food Section and Vice-President, CAC

Mrs. M. Soper

OTHER INDIVIDUALS AND ORGANIZATIONS

Dave Adams, Executive Director, Canadian Meat Council

E. Burris, Farmer, Buffalo, Alberta

Dr. Colin Carter, University of Manitoba

John Clark, United Grain Growers

J.M. Cormick, Chief Executive Officer, Manitoba Pool Elevators

Dick Dawson, Cargill Limited

Craig Dickson, Atlantic Provinces Transportation Committee

I. Gillier, Cargill Limited

Dr. Clay Gilson, University of Manitoba

Fred Hansen, Ogilvie Mills and Canadian Association of Flour Millers

Don Jarvis, Vice-President, Grocery Products Manufacturers of Canada

Don Knoerr, President, Canadian Federation of Agriculture

David Kirk, Executive Secretary, Canadian Federation of Agriculture

Dr. Al Loyns, University of Manitoba

Dr. A.B. Morrison, Head, Food Science, University of Guelph

Philippe Pariseault, Consultant

Ted Poyser, Consultant

Gary Tougher, Prairies-West Group

Dr. Ed Tyrchnewicz, University of Manitoba